

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2021

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

For the transition period from _____ to _____

Commission file number 001-34657

TEXAS CAPITAL BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

75-2679109

(I.R.S. Employer Identification Number)

2000 McKinney Avenue
Suite 700

Dallas TX USA
(Address of principal executive offices)

75201

(Zip Code)

(214) 932-6600

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	TCBI	Nasdaq Stock Market
5.75% Non-Cumulative Perpetual Preferred Stock Series B, par value \$0.01 per share	TCBIO	Nasdaq Stock Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

On October 20, 2021, the number of shares set forth below was outstanding with respect to each of the issuer's classes of common stock:

Common Stock, par value \$0.01 per share 50,607,526

Texas Capital Bancshares, Inc.
Form 10-Q
Quarter Ended September 30, 2021

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PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
TEXAS CAPITAL BANCSHARES, INC.
CONSOLIDATED BALANCE SHEETS - UNAUDITED

(in thousands except share data)

	September 30, 2021	December 31, 2020
	(Unaudited)	
Assets		
Cash and due from banks	\$ 217,125	\$ 173,573
Interest-bearing deposits in other banks	8,317,926	9,032,807
Investment securities	3,663,874	3,196,970
Loans held for sale (\$8.4 million and \$239.1 million at September 30, 2021 and December 31, 2020, respectively, at fair value)	9,660	283,165
Loans held for investment, mortgage finance	8,528,313	9,079,409
Loans held for investment (net of unearned income)	15,221,404	15,351,451
Less: Allowance for credit losses on loans	221,957	254,615
Loans held for investment, net	23,527,760	24,176,245
Mortgage servicing rights, net	1,158	105,424
Premises and equipment, net	21,119	24,546
Accrued interest receivable and other assets	628,335	715,699
Goodwill and intangible assets, net	17,363	17,667
Total assets	\$ 36,404,320	\$ 37,726,096
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	\$ 14,970,462	\$ 12,740,947
Interest-bearing	14,843,206	18,255,642
Total deposits	29,813,668	30,996,589
Accrued interest payable	8,920	11,150
Other liabilities	302,448	339,486
Federal funds purchased and repurchase agreements	3,470	111,751
Other borrowings	2,200,000	3,000,000
Long-term debt	928,062	395,896
Total liabilities	33,256,568	34,854,872
Stockholders' equity:		
Preferred stock, \$0.01 par value, \$1,000 liquidation value:		
Authorized shares—10,000,000		
Issued shares—300,000 and 6,000,000 at September 30, 2021 and December 31, 2020, respectively	300,000	150,000
Common stock, \$0.01 par value:		
Authorized shares—100,000,000		
Issued shares— 50,606,043 and 50,470,867 at September 30, 2021 and December 31, 2020, respectively	506	504
Additional paid-in capital	1,000,509	991,898
Retained earnings	1,887,457	1,713,056
Treasury stock (shares at cost: 417 at September 30, 2021 and December 31, 2020)	(8)	(8)
Accumulated other comprehensive income/(loss), net of taxes	(40,712)	15,774
Total stockholders' equity	3,147,752	2,871,224
Total liabilities and stockholders' equity	\$ 36,404,320	\$ 37,726,096

See accompanying notes to consolidated financial statements.

TEXAS CAPITAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME AND OTHER
COMPREHENSIVE INCOME/(LOSS) - UNAUDITED

<i>(in thousands except per share data)</i>	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Interest income				
Interest and fees on loans	\$ 206,307	\$ 237,179	\$ 632,510	\$ 768,399
Investment securities	10,235	3,674	31,040	7,881
Federal funds sold and securities purchased under resale agreements	—	1	1	692
Interest-bearing deposits in other banks	3,606	2,877	9,499	24,777
Total interest income	220,148	243,731	673,050	801,749
Interest expense				
Deposits	14,719	27,830	50,994	122,298
Federal funds purchased	5	128	131	973
Other borrowings	743	3,365	3,711	17,516
Long-term debt	10,586	4,839	27,052	15,146
Total interest expense	26,053	36,162	81,888	155,933
Net interest income	194,095	207,569	591,162	645,816
Provision for credit losses	5,000	30,000	(20,000)	226,000
Net interest income after provision for credit losses	189,095	177,569	611,162	419,816
Non-interest income				
Service charges on deposit accounts	4,622	2,864	13,972	8,616
Wealth management and trust fee income	3,382	2,502	9,380	7,317
Brokered loan fees	6,032	15,034	22,276	33,813
Servicing income	292	7,329	15,236	18,195
Swap fees	568	484	1,628	4,709
Net gain/(loss) on sale of loans held for sale	(1,185)	25,242	1,317	51,265
Other	7,509	6,893	26,605	18,698
Total non-interest income	21,220	60,348	90,414	142,613
Non-interest expense				
Salaries and employee benefits	87,503	84,096	261,855	262,080
Net occupancy expense	8,324	8,736	24,463	26,582
Marketing	2,123	3,636	5,720	20,146
Legal and professional	11,055	11,207	28,479	40,003
Communications and technology	28,374	31,098	58,695	87,649
Federal Deposit Insurance Corporation (“FDIC”) insurance assessment	4,500	6,374	16,339	19,363
Servicing-related expenses	2,396	12,287	27,740	48,741
Merger-related expenses	—	—	—	17,756
Other	8,712	8,307	29,072	31,173
Total non-interest expense	152,987	165,741	452,363	553,493
Income before income taxes	57,328	72,176	249,213	8,936
Income tax expense	13,938	15,060	60,404	2,823
Net income	43,390	57,116	188,809	6,113
Preferred stock dividends	4,312	2,438	14,408	7,313
Net income/(loss) available to common stockholders	\$ 39,078	\$ 54,678	\$ 174,401	\$ (1,200)
Other comprehensive loss				
Change in unrealized gain/(loss) on available-for-sale debt securities, before tax	\$ (18,131)	\$ 8,053	\$ (71,501)	\$ (2,674)
Income tax expense/(benefit)	(3,808)	1,692	(15,015)	(561)
Other comprehensive income/(loss), net of tax	(14,323)	6,361	(56,486)	(2,113)
Comprehensive income	\$ 29,067	\$ 63,477	\$ 132,323	\$ 4,000
Basic earnings/(loss) per common share	\$ 0.77	\$ 1.08	\$ 3.45	\$ (0.02)
Diluted earnings/(loss) per common share	\$ 0.76	\$ 1.08	\$ 3.41	\$ (0.02)

See accompanying notes to consolidated financial statements.

TEXAS CAPITAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - UNAUDITED

(in thousands except share data)	Preferred Stock		Common Stock		Additional	Retained	Treasury Stock		Accumulated Other Comprehensive	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	Income/(Loss)	
Balance at June 30, 2020	6,000,000	\$ 150,000	50,436,089	\$ 504	\$ 983,144	\$ 1,600,639	(417)	\$ (8)	\$ 476	\$ 2,734,755
Comprehensive income:										
Net income	—	—	—	—	—	57,116	—	—	—	57,116
Change in unrealized gain/(loss) on available-for-sale securities, net of taxes	—	—	—	—	—	—	—	—	6,361	6,361
Total comprehensive income										63,477
Stock-based compensation expense recognized in earnings	—	—	—	—	4,799	—	—	—	—	4,799
Preferred stock dividend	—	—	—	—	—	(2,438)	—	—	—	(2,438)
Issuance of stock related to stock-based awards	—	—	19,880	—	(189)	—	—	—	—	(189)
Balance at September 30, 2020	6,000,000	\$ 150,000	50,455,969	\$ 504	\$ 987,754	\$ 1,655,317	(417)	\$ (8)	\$ 6,837	\$ 2,800,404
Balance at June 30, 2021	300,000	\$ 300,000	50,592,618	\$ 506	\$ 992,469	\$ 1,848,379	(417)	\$ (8)	\$ (26,389)	\$ 3,114,957
Comprehensive income:										
Net income	—	—	—	—	—	43,390	—	—	—	43,390
Change in unrealized gain/(loss) on available-for-sale securities, net of taxes	—	—	—	—	—	—	—	—	(14,323)	(14,323)
Total comprehensive income										29,067
Stock-based compensation expense recognized in earnings	—	—	—	—	8,324	—	—	—	—	8,324
Preferred stock dividend	—	—	—	—	—	(4,312)	—	—	—	(4,312)
Issuance of stock related to stock-based awards	—	—	13,425	—	(284)	—	—	—	—	(284)
Balance at September 30, 2021	300,000	\$ 300,000	50,606,043	\$ 506	\$ 1,000,509	\$ 1,887,457	(417)	\$ (8)	\$ (40,712)	\$ 3,147,752

See accompanying notes to consolidated financial statements.

TEXAS CAPITAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - UNAUDITED - CONTINUED

(in thousands except share data)	Preferred Stock		Common Stock		Additional	Retained	Treasury Stock		Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	Other Comprehensive Income/(Loss)	
Balance at December 31, 2019 (audited)	6,000,000	\$ 150,000	50,338,158	\$ 503	\$ 978,205	\$ 1,663,671	(417)	\$ (8)	\$ 8,950	\$ 2,801,321
Impact of adoption of new accounting standards, net of taxes(1)	—	—	—	—	—	(7,154)	—	—	—	(7,154)
Comprehensive income										
Net income	—	—	—	—	—	6,113	—	—	—	6,113
Change in unrealized gain/(loss) on available-for-sale securities, net of taxes	—	—	—	—	—	—	—	—	(2,113)	(2,113)
Total comprehensive income										4,000
Stock-based compensation expense recognized in earnings	—	—	—	—	11,348	—	—	—	—	11,348
Preferred stock dividend	—	—	—	—	—	(7,313)	—	—	—	(7,313)
Issuance of stock related to stock-based awards	—	—	117,811	1	(1,799)	—	—	—	—	(1,798)
Balance at September 30, 2020	6,000,000	\$ 150,000	50,455,969	\$ 504	\$ 987,754	\$ 1,655,317	(417)	\$ (8)	\$ 6,837	\$ 2,800,404
Balance at December 31, 2020 (audited)	6,000,000	\$ 150,000	50,470,867	\$ 504	\$ 991,898	\$ 1,713,056	(417)	\$ (8)	\$ 15,774	\$ 2,871,224
Comprehensive income:										
Net income	—	—	—	—	—	188,809	—	—	—	188,809
Change in unrealized gain/(loss) on available-for-sale securities, net of taxes	—	—	—	—	—	—	—	—	(56,486)	(56,486)
Total comprehensive income										132,323
Stock-based compensation expense recognized in earnings	—	—	—	—	22,100	—	—	—	—	22,100
Issuance of preferred stock	300,000	300,000	—	—	(10,277)	—	—	—	—	289,723
Preferred stock dividend	—	—	—	—	—	(14,408)	—	—	—	(14,408)
Issuance of stock related to stock-based awards	—	—	135,176	2	(3,212)	—	—	—	—	(3,210)
Redemption of preferred stock	(6,000,000)	(150,000)	—	—	—	—	—	—	—	(150,000)
Balance at September 30, 2021	300,000	\$ 300,000	50,606,043	\$ 506	\$ 1,000,509	\$ 1,887,457	(417)	\$ (8)	\$ (40,712)	\$ 3,147,752

(1) Represents the impact of adopting Accounting Standard Update ("ASU") 2016-13. See Note 1 - Operations and Summary of Significant Accounting Policies to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2020 for more information.

See accompanying notes to consolidated financial statements.

TEXAS CAPITAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(in thousands)	Nine months ended September 30,	
	2021	2020
Operating activities		
Net income	\$ 188,809	\$ 6,113
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	(20,000)	226,000
Depreciation and amortization	65,943	51,716
Net (gain)/loss on sale of loans held for sale	(1,317)	(51,265)
Increase/(decrease) in valuation allowance on mortgage servicing rights	(16,448)	20,933
Stock-based compensation expense	23,192	12,064
Purchases and originations of loans held for sale	(1,413,899)	(8,963,499)
Proceeds from sales and repayments of loans held for sale	1,675,246	10,859,458
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	86,707	(16,912)
Accrued interest payable and other liabilities	(41,920)	25,222
Net cash provided by operating activities	546,313	2,169,830
Investing activities		
Purchases of investment securities	(952,982)	(1,140,935)
Principal payments received on investment securities	400,429	12,042
Originations of mortgage finance loans	(128,503,055)	(157,016,926)
Proceeds from pay-offs of mortgage finance loans	129,054,151	155,808,671
Proceeds from sale of mortgage servicing rights	108,925	—
Net increase/(decrease) in loans held for investment, excluding mortgage finance loans	118,166	553,026
Purchase of premises and equipment, net	(2,619)	(2,705)
Net cash provided by/(used in) investing activities	223,015	(1,786,827)
Financing activities		
Net increase/(decrease) in deposits	(1,182,921)	5,480,894
Costs from issuance of stock related to stock-based awards and warrants	(3,210)	(1,798)
Net proceeds from issuance of preferred stock	289,723	—
Redemption of preferred stock	(150,000)	—
Preferred dividends paid	(14,408)	(7,313)
Net increase/(decrease) in other borrowings	(800,000)	300,000
Net increase/(decrease) in federal funds purchased and repurchase agreements	(108,281)	66,417
Net proceeds from issuance of long-term debt	639,440	—
Redemption of long-term debt	(111,000)	—
Net cash provided by/(used in) financing activities	(1,440,657)	5,838,200
Net increase/(decrease) in cash and cash equivalents	(671,329)	6,221,203
Cash and cash equivalents at beginning of period	9,206,380	4,425,583
Cash and cash equivalents at end of period	\$ 8,535,051	\$ 10,646,786
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 84,118	\$ 154,019
Cash paid during the period for income taxes	99,915	21,747

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

(1) Operations and Summary of Significant Accounting Policies

Organization and Nature of Business

Texas Capital Bancshares, Inc. (the “Company”), a Delaware corporation, was incorporated in November 1996 and commenced banking operations in December 1998. The consolidated financial statements of the Company include the accounts of the Company and its wholly owned subsidiary, Texas Capital Bank (the “Bank”).

We serve the needs of commercial businesses and professionals and entrepreneurs located in Texas as well as operate several lines of business serving a regional or national clientele of commercial borrowers. We are primarily a secured lender, with the majority of our loans held for investment, excluding mortgage finance loans and other national lines of business, being made to businesses headquartered or with operations in Texas. Our national lines of business provide specialized lending products to businesses throughout the United States.

In May 2021 the Bank applied to the Texas Department of Banking to convert from a national association to a Texas state-chartered bank. The application was approved during the third quarter and the conversion was effective at open of business on September 15, 2021. Effective as of the date of conversion, the Texas Department of Banking is the Bank’s primary regulator, the FDIC is the Bank’s primary federal regulator, and the Federal Reserve will continue to be the Company’s primary federal regulator.

Basis of Presentation

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

The consolidated interim financial statements are unaudited and certain information and disclosures in the notes to consolidated financial statements that are presented in accordance with GAAP have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make the interim financial information not misleading. The consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q adopted by the U.S. Securities and Exchange Commission (“SEC”). Accordingly, the financial statements do not include all of the information and notes to the consolidated financial statements required by GAAP for complete annual financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2020, included in our Annual Report on Form 10-K for the year ended December 31, 2020 (the “2020 Form 10-K”). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Use of Estimates

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

(2) Earnings/(Loss) Per Share

The following table presents the computation of basic and diluted earnings/(loss) per share:

(in thousands except share and per share data)	Three months ended September 30,			Nine months ended September 30,		
	2021	2020		2021	2020	
Numerator:						
Net income	\$	43,390	\$	57,116	\$	188,809
Preferred stock dividends		4,312		2,438		14,408
Net income/(loss) available to common stockholders	\$	39,078	\$	54,678	\$	174,401
Denominator:						
Denominator for basic earnings per share—weighted average shares		50,600,732		50,446,691		50,568,439
Effect of employee stock-based awards(1)		538,823		126,382		555,836
Denominator for dilutive earnings per share—adjusted weighted average shares and assumed conversions		51,139,555		50,573,073		51,124,275
Basic earnings/(loss) per common share	\$	0.77	\$	1.08	\$	3.45
Diluted earnings/(loss) per common share	\$	0.76	\$	1.08	\$	3.41

- (1) SARs and RSUs outstanding of 208,813 at September 30, 2021 and 480,062 at September 30, 2020 have not been included in diluted earnings/(loss) per common share because to do so would have been antidilutive for the periods presented.

(3) Investment Securities

Available-for-Sale Debt Securities

The following is a summary of available-for-sale debt securities:

(in thousands)	Amortized Cost(1)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2021				
Available-for-sale debt securities:				
U.S. government agency securities	\$ 125,000	\$ —	\$ (3,080)	\$ 121,920
Residential mortgage-backed securities	3,363,930	331	(59,539)	3,304,722
Tax-exempt asset-backed securities	171,157	13,663	—	184,820
Credit risk transfer (“CRT”) securities	14,713	—	(2,909)	11,804
Total	\$ 3,674,800	\$ 13,994	\$ (65,528)	\$ 3,623,266
December 31, 2020				
Available-for-sale debt securities:				
U.S. government agency securities	\$ 125,000	\$ 1	\$ (1,412)	\$ 123,589
Residential mortgage-backed securities	2,818,518	11,566	(1,128)	2,828,956
Tax-exempt asset-backed securities	184,940	14,236	—	199,176
CRT securities	14,713	—	(3,296)	11,417
Total	\$ 3,143,171	\$ 25,803	\$ (5,836)	\$ 3,163,138

- (1) Excludes accrued interest receivable of \$6.7 million and \$6.0 million at September 30, 2021 and December 31, 2020, respectively, that is recorded in accrued interest receivable and other assets on the consolidated balance sheets.

The amortized cost and estimated fair value, excluding accrued interest receivable, and weighted average yield of available-for-sale debt securities are presented below by contractual maturity:

<i>(in thousands, except percentage data)</i>	Less Than One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total
September 30, 2021					
Available-for-sale:					
U.S. government agency securities:(1)					
Amortized cost	\$ —	\$ —	\$ 125,000	\$ —	\$ 125,000
Estimated fair value	—	—	121,920	—	121,920
Weighted average yield(3)	— %	— %	1.13 %	— %	1.13 %
Residential mortgage-backed securities:(1)					
Amortized cost	\$ 24	\$ 252	\$ 17,339	\$ 3,346,315	\$ 3,363,930
Estimated fair value	26	280	16,652	3,287,764	3,304,722
Weighted average yield(3)	3.99 %	4.66 %	1.08 %	1.13 %	1.13 %
Tax-exempt asset-backed securities:(1)					
Amortized Cost	\$ —	\$ —	\$ —	\$ 171,157	\$ 171,157
Estimated fair value	—	—	—	184,820	184,820
Weighted average yield(2)(3)	— %	— %	— %	4.96 %	4.96 %
CRT securities:(1)					
Amortized Cost	\$ —	\$ —	\$ 14,713	\$ —	\$ 14,713
Estimated fair value	—	—	11,804	—	11,804
Weighted average yield(3)	— %	— %	0.08 %	— %	0.08 %
Total available-for-sale debt securities:					
Amortized cost					\$ 3,674,800
Estimated fair value					\$ 3,623,266
December 31, 2020					
Available-for-sale:					
U.S. government agency securities:(1)					
Amortized cost	\$ —	\$ —	\$ 125,000	\$ —	\$ 125,000
Estimated fair value	—	—	123,589	—	123,589
Weighted average yield(3)	— %	— %	1.13 %	— %	1.13 %
Residential mortgage-backed securities:(1)					
Amortized cost	\$ —	\$ 545	\$ 17,500	\$ 2,800,473	\$ 2,818,518
Estimated fair value	—	605	17,490	2,810,861	2,828,956
Weighted average yield(3)	— %	4.58 %	1.08 %	1.25 %	1.25 %
Tax-exempt asset-backed securities:(1)					
Amortized Cost	\$ —	\$ —	\$ —	\$ 184,940	\$ 184,940
Estimated fair value	—	—	—	199,176	199,176
Weighted average yield(2)(3)	— %	— %	— %	4.92 %	4.92 %
CRT securities:(1)					
Amortized Cost	\$ —	\$ —	\$ —	\$ 14,713	\$ 14,713
Estimated fair value	—	—	—	11,417	11,417
Weighted average yield(3)	— %	— %	— %	0.15 %	0.15 %
Total available-for-sale debt securities:					
Amortized cost					\$ 3,143,171
Estimated fair value					\$ 3,163,138

- (1) Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.
(2) Yields have been adjusted to a tax equivalent basis assuming a 21% federal tax rate.
(3) Yields are calculated based on amortized cost.

The following table discloses our available-for-sale debt securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

(in thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2021						
U.S. government agency securities	\$ 24,348	\$ (652)	\$ 97,572	\$ (2,428)	\$ 121,920	\$ (3,080)
Residential mortgage-backed securities	3,279,426	(59,539)	97	—	3,279,523	(59,539)
CRT securities	—	—	11,804	(2,909)	11,804	(2,909)
Total	\$ 3,303,774	\$ (60,191)	\$ 109,473	\$ (5,337)	\$ 3,413,247	\$ (65,528)
December 31, 2020						
U.S. government agency securities	\$ 98,588	\$ (1,412)	\$ —	\$ —	\$ 98,588	\$ (1,412)
Residential mortgage-backed securities	354,387	(1,128)	—	—	354,387	(1,128)
CRT securities	—	—	11,417	(3,296)	11,417	(3,296)
Total	\$ 452,975	\$ (2,540)	\$ 11,417	\$ (3,296)	\$ 464,392	\$ (5,836)

At September 30, 2021, we had 118 securities in an unrealized loss position, comprised of five U.S. government agency securities, two CRT securities and 111 residential mortgage-backed securities. Based upon our September 30, 2021 review of securities with unrealized losses we have determined that all losses resulted from factors not deemed credit-related. We have evaluated the near-term prospects of each securities portfolio in relation to the severity of the unrealized losses and adverse conditions related to the securities among other factors. Based on that evaluation management has determined that we have the ability and intent to hold the securities until recovery of fair value and have recorded the unrealized losses in accumulated other comprehensive income (“AOCI”).

Available-for-sale debt securities with carrying values of approximately \$24.0 million and \$1.3 million were pledged to secure certain customer repurchase agreements and deposits, respectively, at September 30, 2021. The comparative amounts at December 31, 2020 were \$31.7 million and \$1.9 million, respectively.

Equity Securities

Equity securities consist of investments that qualify for consideration under the regulations implementing the Community Reinvestment Act and investments related to our non-qualified deferred compensation plan. At September 30, 2021 and December 31, 2020, we had \$40.6 million and \$33.8 million, respectively, in equity securities recorded at fair value. The following is a summary of unrealized and realized gains/(losses) recognized on equity securities included in other non-interest income in the consolidated statements of income and other comprehensive income:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Net gains/(losses) recognized during the period	\$ 850	\$ 1,350	\$ 4,496	\$ 1,285
Less: Realized net gains/(losses) recognized during the period on equity securities sold	347	177	1,096	(68)
Unrealized net gains/(losses) recognized during the period on equity securities still held	\$ 503	\$ 1,173	\$ 3,400	\$ 1,353

(4) Loans Held for Investment and Allowance for Credit Losses on Loans

Loans held for investment are summarized by portfolio segment as follows:

(in thousands)	September 30, 2021	December 31, 2020
Commercial	\$ 9,377,274	\$ 8,861,580
Energy	697,888	766,217
Mortgage finance(1)	8,528,313	9,079,409
Real estate	5,212,364	5,794,624
Gross loans held for investment(2)	23,815,839	24,501,830
Unearned income (net of direct origination costs)	(66,122)	(70,970)
Allowance for credit losses on loans	(221,957)	(254,615)
Total loans held for investment, net(2)	\$ 23,527,760	\$ 24,176,245

(1) Balances at September 30, 2021 and December 31, 2020 are stated net of \$677.6 million and \$1.2 billion of participations sold, respectively.

(2) Excludes accrued interest receivable of \$50.3 million and \$56.5 million at September 30, 2021 and December 31, 2020, respectively, that is recorded in accrued interest receivable and other assets on the consolidated balance sheets.

The following tables summarize our gross loans held for investment by year of origination and internally assigned credit grades:

<i>(in thousands)</i>	2021	2020	2019	2018	2017	2016 and prior	Revolving lines of credit	Revolving lines of credit converted to term loans	Total
September 30, 2021									
Commercial									
(1-7) Pass	\$ 919,405	\$ 3,228,097	\$ 572,505	\$ 321,356	\$ 194,921	\$ 284,804	\$ 3,535,016	\$ 50,565	\$ 9,106,669
(8) Special mention	691	8,061	46,942	9,233	—	13,561	9,579	6,495	94,562
(9) Substandard - accruing	—	4,763	60,192	39,177	6,202	16,137	15,592	6,906	148,969
(9+) Non-accrual	1,218	1,624	2,305	727	2,105	10,444	8,185	466	27,074
Total commercial	\$ 921,314	\$ 3,242,545	\$ 681,944	\$ 370,493	\$ 203,228	\$ 324,946	\$ 3,568,372	\$ 64,432	\$ 9,377,274
Energy									
(1-7) Pass	\$ 22,309	\$ —	\$ —	\$ 2,516	\$ —	\$ 28,854	\$ 566,387	\$ —	\$ 620,066
(8) Special mention	—	—	—	—	—	—	37,782	—	37,782
(9) Substandard - accruing	—	—	—	—	—	—	—	—	—
(9+) Non-accrual	—	—	—	—	—	20,715	19,325	—	40,040
Total energy	\$ 22,309	\$ —	\$ —	\$ 2,516	\$ —	\$ 49,569	\$ 623,494	\$ —	\$ 697,888
Mortgage finance									
(1-7) Pass	\$ 295,565	\$ 834,008	\$ 744,105	\$ 696,945	\$ 409,308	\$ 5,548,382	\$ —	\$ —	\$ 8,528,313
(8) Special mention	—	—	—	—	—	—	—	—	—
(9) Substandard - accruing	—	—	—	—	—	—	—	—	—
(9+) Non-accrual	—	—	—	—	—	—	—	—	—
Total mortgage finance	\$ 295,565	\$ 834,008	\$ 744,105	\$ 696,945	\$ 409,308	\$ 5,548,382	\$ —	\$ —	\$ 8,528,313
Real estate									
CRE									
(1-7) Pass	\$ 292,248	\$ 545,204	\$ 703,910	\$ 566,771	\$ 187,565	\$ 482,033	\$ 45,008	\$ 25,361	\$ 2,848,100
(8) Special mention	—	—	30,497	8,881	48,049	17,022	—	—	104,449
(9) Substandard - accruing	17,850	—	—	41,209	61,051	62,978	—	2,354	185,442
(9+) Non-accrual	—	—	—	—	—	202	—	—	202
RBF									
(1-7) Pass	166,828	70,338	15,180	9,392	66	14,483	566,799	—	843,086
(8) Special mention	—	—	—	—	—	—	—	—	—
(9) Substandard - accruing	—	—	—	—	—	—	—	—	—
(9+) Non-accrual	—	—	—	—	—	—	—	—	—
Other									
(1-7) Pass	88,370	161,048	136,836	107,251	83,282	167,252	45,174	30,210	819,423
(8) Special mention	—	13,903	1,990	—	—	5,055	—	—	20,948
(9) Substandard - accruing	—	—	—	1,637	23,952	21,125	—	—	46,714
(9+) Non-accrual	—	—	—	—	3,536	2,566	—	13,929	20,031
Secured by 1-4 family									
(1-7) Pass	71,682	62,514	53,285	24,610	34,666	69,988	4,491	—	321,236
(8) Special mention	—	—	—	—	—	294	—	—	294
(9) Substandard - accruing	—	—	—	—	—	2,254	—	—	2,254
(9+) Non-accrual	—	—	—	—	—	185	—	—	185
Total real estate	\$ 636,978	\$ 853,007	\$ 941,698	\$ 759,751	\$ 442,167	\$ 845,437	\$ 661,472	\$ 71,854	\$ 5,212,364
Total loans held for investment	\$ 1,876,166	\$ 4,929,560	\$ 2,367,747	\$ 1,829,705	\$ 1,054,703	\$ 6,768,334	\$ 4,853,338	\$ 136,286	\$ 23,815,839

<i>(in thousands)</i>	2020	2019	2018	2017	2016	2015 and prior	Revolving lines of credit	Revolving lines of credit converted to term loans	Total
December 31, 2020									
Commercial									
(1-7) Pass	\$ 1,259,949	\$ 2,816,425	\$ 543,438	\$ 374,455	\$ 192,060	\$ 213,212	\$ 3,020,353	\$ 40,253	\$ 8,460,145
(8) Special mention	2,664	115,015	38,751	26,423	1,983	290	19,971	22,797	227,894
(9) Substandard - accruing	15,773	15,854	18,068	32,241	15,297	19,639	22,932	1,641	141,445
(9+) Non-accrual	1,820	8,360	377	1,292	802	15,157	3,836	452	32,096
Total commercial	\$ 1,280,206	\$ 2,955,654	\$ 600,634	\$ 434,411	\$ 210,142	\$ 248,298	\$ 3,067,092	\$ 65,143	\$ 8,861,580
Energy									
(1-7) Pass	\$ —	\$ 12,020	\$ 7,598	\$ 26,931	\$ —	\$ 23,750	\$ 553,970	\$ —	\$ 624,269
(8) Special mention	—	—	—	—	—	13,358	76,866	—	90,224
(9) Substandard - accruing	—	—	—	—	—	—	—	—	—
(9+) Non-accrual	—	—	—	5,705	1,972	8,009	36,038	—	51,724
Total energy	\$ —	\$ 12,020	\$ 7,598	\$ 32,636	\$ 1,972	\$ 45,117	\$ 666,874	\$ —	\$ 766,217
Mortgage finance									
(1-7) Pass	\$ 755,309	\$ 1,063,641	\$ 821,122	\$ 483,436	\$ 106,013	\$ 5,849,888	\$ —	\$ —	\$ 9,079,409
(8) Special mention	—	—	—	—	—	—	—	—	—
(9) Substandard - accruing	—	—	—	—	—	—	—	—	—
(9+) Non-accrual	—	—	—	—	—	—	—	—	—
Total mortgage finance	\$ 755,309	\$ 1,063,641	\$ 821,122	\$ 483,436	\$ 106,013	\$ 5,849,888	\$ —	\$ —	\$ 9,079,409
Real estate									
CRE									
(1-7) Pass	\$ 352,688	\$ 892,831	\$ 923,762	\$ 444,587	\$ 208,426	\$ 451,283	\$ 62,336	\$ 61,133	\$ 3,397,046
(8) Special mention	3,475	11,170	6,485	88,633	11,153	17,623	—	1,247	139,786
(9) Substandard - accruing	—	327	47,708	11,601	32,645	30,766	—	15,940	138,987
(9+) Non-accrual	—	—	—	—	5,749	4,852	—	—	10,601
RBF									
(1-7) Pass	162,397	60,077	65,271	3,727	5,888	8,483	551,703	—	857,546
(8) Special mention	—	353	—	—	—	—	—	—	353
(9) Substandard - accruing	—	—	—	—	—	—	—	—	—
(9+) Non-accrual	—	—	—	—	—	—	—	—	—
Other									
(1-7) Pass	190,995	150,787	119,696	120,817	82,465	113,105	16,630	39,129	833,624
(8) Special mention	—	6,700	2,240	—	1,843	7,195	—	1,018	18,996
(9) Substandard - accruing	—	—	2,567	14,452	3,301	14,453	—	—	34,773
(9+) Non-accrual	—	—	—	927	5,524	6,403	—	14,496	27,350
Secured by 1-4 family									
(1-7) Pass	58,515	63,031	46,623	54,096	72,527	31,880	4,697	—	331,369
(8) Special mention	646	—	—	635	—	1,768	—	—	3,049
(9) Substandard - accruing	—	—	—	817	—	109	—	—	926
(9+) Non-accrual	—	—	—	—	—	218	—	—	218
Total real estate	\$ 768,716	\$ 1,185,276	\$ 1,214,352	\$ 740,292	\$ 429,521	\$ 688,138	\$ 635,366	\$ 132,963	\$ 5,794,624
Total loans held for investment	\$ 2,804,231	\$ 5,216,591	\$ 2,643,706	\$ 1,690,775	\$ 747,648	\$ 6,831,441	\$ 4,369,332	\$ 198,106	\$ 24,501,830

The following table details activity in the allowance for credit losses on loans. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

<i>(in thousands)</i>	Commercial	Energy	Mortgage Finance	Real Estate	Total
Nine months ended September 30, 2021					
Allowance for credit losses on loans:					
Beginning balance	\$ 73,061	\$ 84,064	\$ 4,699	\$ 92,791	\$ 254,615
Provision for credit losses on loans	26,549	(24,730)	1,729	(24,325)	(20,777)
Charge-offs	8,211	6,418	—	1,192	15,821
Recoveries	2,462	1,366	—	112	3,940
Net charge-offs (recoveries)	5,749	5,052	—	1,080	11,881
Ending balance	\$ 93,861	\$ 54,282	\$ 6,428	\$ 67,386	\$ 221,957
Nine months ended September 30, 2020					
Allowance for credit losses on loans:					
Beginning balance	\$ 102,254	\$ 60,253	\$ 2,265	\$ 30,275	\$ 195,047
Impact of Current Expected Credit Loss (“CECL”) adoption	(15,740)	24,154	2,031	(1,860)	8,585
Provision for credit losses on loans	47,263	127,470	430	44,799	219,962
Charge-offs	35,376	100,239	—	—	135,615
Recoveries	883	1,303	—	—	2,186
Net charge-offs (recoveries)	34,493	98,936	—	—	133,429
Ending balance	\$ 99,284	\$ 112,941	\$ 4,726	\$ 73,214	\$ 290,165

We recorded a \$20.0 million negative provision for credit losses for the nine months ended September 30, 2021, compared to a provision of \$226.0 million for the same period in 2020. The decreased provision resulted primarily from decreases in charge-offs and non-accrual loans during the nine month ended and as of September 30, 2021, as well as improvement in the economic outlook as the economy continues to recover from the impacts of the COVID-19 pandemic. We recorded \$11.9 million in net charge-offs during the nine months ended September 30, 2021, compared to \$133.4 million during the same period in 2020. Criticized loans totaled \$728.9 million at September 30, 2021, compared to \$1.1 billion at September 30, 2020.

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. There were no loans that met these criteria at September 30, 2021.

The table below provides an age analysis of our loans held for investment:

<i>(in thousands)</i>	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Past Due	Non-Accrual Loans(2)	Current	Total	Non-Accrual With No Allowance
September 30, 2021								
Commercial	\$ 19,395	\$ 18,313	\$ 2,256	\$ 39,964	\$ 27,074	\$ 9,310,236	\$ 9,377,274	\$ 10,899
Energy	—	—	—	—	40,040	657,848	697,888	9,281
Mortgage finance loans	—	—	—	—	—	8,528,313	8,528,313	—
Real estate								
CRE	250	—	—	250	202	3,137,741	3,138,193	—
RBF	—	—	—	—	—	843,086	843,086	—
Other	1,225	—	—	1,225	20,031	885,860	907,116	2,697
Secured by 1-4 family	553	—	1,149	1,702	185	322,082	323,969	—
Total loans held for investment	\$ 21,423	\$ 18,313	\$ 3,405	\$ 43,141	\$ 87,532	\$ 23,685,166	\$ 23,815,839	\$ 22,877

- (1) Loans past due 90 days and still accruing includes premium finance loans of \$2.3 million. These loans are generally secured by obligations of insurance carriers to refund premiums on canceled insurance policies. The receipt of the refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.
- (2) As of September 30, 2021 and December 31, 2020, none of our non-accrual loans were earning interest income on a cash basis. Additionally, no interest income was recognized on non-accrual loans for the nine months ended September 30, 2021. Accrued interest of \$674,000 was reversed during the nine months ended September 30, 2021.

As of September 30, 2021 and December 31, 2020, we did not have any loans considered restructured that were not on non-accrual. Of the non-accrual loans at September 30, 2021 and December 31, 2020, \$23.7 million and \$45.4 million, respectively, met the criteria for restructured. These loans had no unfunded commitments at their respective balance sheet dates.

We did not have any loans that were restructured during the nine months ended September 30, 2021. The following table details the recorded investment at September 30, 2020 of loans restructured during the nine months ended September 30, 2020:

(in thousands, except number of contracts)	Extended Maturity		Adjusted Payment Schedule		Total	
	Number of Contracts	Balance at Period End	Number of Contracts	Balance at Period End	Number of Contracts	Balance at Period End
Nine months ended September 30, 2020						
Commercial loans	2	\$ 7,636	2	\$ 14,663	4	\$ 22,299
Energy loans	1	5,969	3	13,469	4	19,438
Total	3	\$ 13,605	5	\$ 28,132	8	\$ 41,737

Restructured loans generally include terms to temporarily place the loan on interest only, extend the payment terms or reduce the interest rate. We did not forgive any principal on the above restructured loans. At September 30, 2020, all of the above restructured loans were on non-accrual. The restructuring of the loans did not have a significant impact on our allowance for credit losses at September 30, 2020. As of September 30, 2021 and 2020, we did not have any loans that were restructured within the last 12 months that subsequently defaulted.

(5) Certain Transfers of Financial Assets

On April 20, 2021, we entered into an agreement to sell our portfolio of mortgage servicing rights (“MSRs”) and to transition the Mortgage Correspondent Aggregation (“MCA”) program to a third-party. The sale was completed on June 1, 2021 and the transfer of servicing on the underlying mortgage loans was completed on August 1, 2021. Transition activities began immediately following the execution of the agreement and are significantly complete as of September 30, 2021.

At September 30, 2021, we have a remaining MSR balance of \$1.2 million, which represents MSRs from loans sold after the cut-off date for the initial sale mentioned above. The sale of this MSR portfolio and the transfer of servicing on the underlying mortgage loans was completed on October 1, 2021 and all related hedges were closed as of September 30, 2021.

The table below presents a reconciliation of the changes in loans held for sale:

(in thousands)	Nine Months Ended September 30,	
	2021	2020
Outstanding balance(1):		
Beginning balance	\$ 281,137	\$ 2,568,362
Loans purchased and originated	1,413,899	8,963,499
Payments and loans sold	(1,685,212)	(10,889,549)
Ending balance	9,824	642,312
Fair value adjustment:		
Beginning balance	2,028	8,772
Increase/(decrease) to fair value	(2,192)	(3,075)
Ending balance	(164)	5,697
Loans held for sale at fair value	\$ 9,660	\$ 648,009

(1) Includes \$1.3 million and \$44.1 million of loans held for sale that are carried at lower of cost or market as of September 30, 2021 and December 31, 2020, respectively, as well as \$9.0 million and \$5.8 million as of September 30, 2020 and December 31, 2019, respectively.

No loans held for sale were on non-accrual as of September 30, 2021. At December 31, 2020 we had \$7.0 million in non-accrual loans held for sale, comprised of one loan previously reported in loans held for investment that was transferred to loans held for sale as of December 31, 2020 and subsequently sold at carrying value. At September 30, 2021 and December 31, 2020, we had \$3.8 million and \$16.7 million, respectively, of loans held for sale that were 90 days or more past due. The \$3.8 million in loans held for sale that were 90 days or more past due at September 30, 2021 was comprised of loans guaranteed by U.S. government agencies that were purchased out of Ginnie Mae securities and recorded as loans held for sale, at fair value, on the balance sheet. Interest on these past due loans accrues at the debenture rate guaranteed by the U.S. government. At December 31, 2020, \$3.3 million of the \$16.7 million in loans held for sale that were 90 days or more past due were loans guaranteed by U.S. government agencies that were purchased out of Ginnie Mae securities and recorded as loans held for sale, at fair value, on the balance sheet and \$13.4 million were loans that, pursuant to Ginnie Mae servicing guidelines, we have the unilateral right, but not the obligation, to repurchase if defined delinquent loan criteria are met, and therefore must record as held for sale on our balance sheet regardless of whether the repurchase option has been exercised.

Through the MCA program we retain the right to service the loans after they are sold, creating MSRs which are recorded as assets on our consolidated balance sheets. A summary of MSR activity is as follows:

<i>(in thousands)</i>	Nine months ended September 30,	
	2021	2020
MSRs:		
Balance, beginning of year	\$ 131,391	\$ 70,707
Capitalized servicing rights	15,990	76,905
Amortization	(18,663)	(25,553)
Direct write-down	(279)	—
Sales	(127,281)	—
Balance, end of period	\$ 1,158	\$ 122,059
Valuation allowance:		
Balance, beginning of year	\$ 25,967	\$ 5,803
Change in valuation allowance	(25,967)	20,933
Balance, end of period	\$ —	\$ 26,736
MSRs, net	\$ 1,158	\$ 95,323
MSRs, fair value	\$ 1,158	\$ 95,323

At September 30, 2021 and December 31, 2020, our portfolio of MSRs was comprised of residential mortgage loans with outstanding principal balances of \$143.4 million and \$13.8 billion, respectively.

In connection with the servicing of these loans, we hold deposits in the name of investors representing escrow funds for taxes and insurance, as well as collections in transit to such investors. These escrow funds are segregated and held in separate non-interest-bearing deposit accounts at the Bank. These deposits, included in total non-interest-bearing deposits on the consolidated balance sheets, were \$2.4 million at September 30, 2021 and \$152.6 million at December 31, 2020.

The following tables summarize the assumptions used by management to determine the fair value of MSRs and a sensitivity analysis of changes in the fair value of our MSR portfolio resulting from certain key assumptions. The MSR balance at September 30, 2021 was valued utilizing the October 1, 2021 sale price, therefore only December 31, 2020 data is provided in the tables below.

	December 31, 2020
Average discount rates	9.09 %
Expected prepayment speeds	16.37 %
Weighted-average life, in years	4.9

<i>(in thousands)</i>	December 31, 2020
50 bp adverse change in prepayment speed	\$ (12,203)
100 bp adverse change in prepayment speed	(16,062)

These sensitivities are hypothetical and actual results may differ materially due to a number of factors. The effect on fair value of a 10% variation in assumptions generally cannot be determined with confidence because the relationship of the change in assumptions to the fair value may not be linear. Additionally, the impact of a variation in a particular assumption on the fair value is calculated while holding other assumptions constant. In reality, changes in one factor may be correlated with changes in other factors, which could impact the sensitivity analysis as presented.

In conjunction with the sale and securitization of loans held for sale, we may be exposed to liability resulting from repurchase, indemnification and make-whole agreements. Our estimated exposure related to those agreements totaled \$619,000 and \$621,000 at September 30, 2021 and December 31, 2020, respectively, and is recorded in other liabilities on the consolidated balance sheets. \$76,000 in make-whole obligation payments were made during the nine months ended September 30, 2021 compared to \$7.8 million during the nine months ended September 30, 2020.

(6) Long-term Debt

From November 2002 to September 2006 various Texas Capital Statutory Trusts were created and subsequently issued floating rate trust preferred securities in various private offerings totaling \$113.4 million. For the three and nine months ended September 30, 2021, the combined weighted-average interest rate on the trust preferred subordinated debentures was 2.09% and 2.14%, respectively, compared to 2.28% and 3.03%, respectively, for the same periods in 2020. The details of the trust preferred subordinated debentures as of September 30, 2021 are summarized below:

<i>(dollar amounts in thousands)</i>	Texas Capital Bancshares Statutory Trust I	Texas Capital Statutory Trust II	Texas Capital Statutory Trust III	Texas Capital Statutory Trust IV	Texas Capital Statutory Trust V
Date issued	November 19, 2002	April 10, 2003	October 6, 2005	April 28, 2006	September 29, 2006
Trust preferred securities issued	\$10,310	\$10,310	\$25,774	\$25,774	\$41,238
Floating or fixed rate securities	Floating	Floating	Floating	Floating	Floating
Interest rate on subordinated debentures	3 month LIBOR + 3.35%	3 month LIBOR + 3.25%	3 month LIBOR + 1.51%	3 month LIBOR + 1.60%	3 month LIBOR + 1.71%
Maturity date	November 2032	April 2033	December 2035	June 2036	December 2036

On September 21, 2012, the Company issued \$111.0 million of subordinated notes. The notes mature in September 2042 and bear interest at a rate of 6.50% per annum, payable quarterly. The indenture governing the notes contains customary covenants and restrictions. These notes were redeemed on June 21, 2021.

On January 31, 2014, the Bank issued \$175.0 million of subordinated notes in an offering to institutional investors exempt from registration under Section 3(a)(2) of the Securities Act of 1933 and 12 C.F.R. Part 16. The notes mature in January 2026 and bear interest at a rate of 5.25% per annum, payable semi-annually. The notes are unsecured and are subordinate to the Bank's obligations to its depositors, its obligations under banker's acceptances and letters of credit, certain obligations to Federal Reserve Banks and the FDIC and the Bank's obligations to its other creditors, except any obligations which expressly rank on a parity with or junior to the notes. The notes qualify as Tier 2 capital for regulatory capital purposes, subject to applicable limitations. At the beginning of each of the last five years of the life of the notes, the amount that is eligible to be included in Tier 2 capital is reduced by 20% of the original amount of the notes (net of redemptions). In 2021, the amount of the notes that qualify as Tier 2 capital has been reduced by 20%.

On March 9, 2021, the Bank issued and sold \$275 million of senior unsecured credit-linked notes. The notes mature on September 30, 2024, and accrue interest at a rate equal to the higher of LIBOR plus 4.50% or 4.25%, payable quarterly on each of March 31, June 30, September 30 and December 31. For the three and nine months ended September 30, 2021, the weighted-average interest rate on the notes was 5.54% and 5.58%, respectively. The notes effectively transfer the risk of first losses on a \$2.2 billion reference pool of the Bank's mortgage warehouse loans to the purchasers of the notes in an amount up to \$275.0 million. In the event of a failure to pay by the relevant mortgage originator, insolvency of the relevant mortgage originator, or restructuring of such loans that results in a loss on a loan included in the reference pool, the principal balance of the notes will be reduced to the extent of such loss and recognized as a debt extinguishment gain within non-interest income on our consolidated statements of income and other comprehensive income. The purchasers of the notes have the option to acquire the underlying mortgage loan collateralizing the reference warehouse line of credit in lieu of a principal reduction on the notes. Losses on our warehouse lines of credit have not generally been significant. The notes are recorded in long-term debt on our consolidated balance sheets and accounted for at amortized cost. The fair value of the credit-linked note is based on observable inputs, when available, and as such are categorized as Level 2 liabilities. Because the notes are variable rate debt, the fair value approximates carrying value.

On May 6, 2021, the Company issued and sold \$375.0 million of subordinated notes. The notes mature in May 2031 and bear interest at a fixed rate of 4.00% per annum, payable semi-annually. Net proceeds from the transaction were \$370.7 million providing additional capital to be used for general corporate purposes. A portion of the proceeds were also used to redeem the Company's 6.50% fixed rate subordinated notes, as is described above. The indenture governing the notes contains customary covenants and restrictions.

(7) Financial Instruments with Off-Balance Sheet Risk

The table below presents our financial instruments with off-balance sheet risk, as well as the activity in the allowance for off-balance sheet credit losses related to those financial instruments. This allowance is recorded in other liabilities on the consolidated balance sheets.

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Beginning balance of allowance for off-balance sheet credit losses	\$ 16,747	\$ 12,268	\$ 17,434	\$ 8,640
Impact of CECL adoption	—	—	—	563
Provision for off-balance sheet credit losses	1,464	2,973	777	6,038
Ending balance of allowance for off-balance sheet credit losses	\$ 18,211	\$ 15,241	\$ 18,211	\$ 15,241

(in thousands)	September 30, 2021	December 31, 2020
Commitments to extend credit - period end balance	\$ 8,261,483	\$ 8,530,453
Standby letters of credit - period end balance	\$ 340,896	\$ 268,894

(8) Regulatory Restrictions

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material adverse effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's and the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Basel III regulatory capital framework (the "Basel III Capital Rules") adopted by U.S. federal regulatory authorities, among other things, (i) establishes the capital measure called "Common Equity Tier 1" ("CET1"), (ii) specifies that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting stated requirements, (iii) requires that most deductions/adjustments to regulatory capital measures be made to CET1 and not to other components of capital and (iv) defines the scope of the deductions/adjustments to the capital measures.

Additionally, the Basel III Capital Rules require that we maintain a 2.5% capital conservation buffer with respect to each of CET1, Tier 1 and total capital to risk-weighted assets, which provides for capital levels that exceed the minimum risk-based capital adequacy requirements. A financial institution with a conservation buffer of less than the required amount is subject to limitations on capital distributions, including dividend payments and stock repurchases, and certain discretionary bonus payments to executive officers.

In February 2019, the federal bank regulatory agencies issued a final rule (the "2019 CECL Rule") that revised certain capital regulations to account for changes to credit loss accounting under GAAP. The 2019 CECL Rule included a transition option that allows banking organizations to phase in, over a three-year period, the day-one adverse effects of adopting the new accounting standard related to the measurement of current expected credit losses on their regulatory capital ratios (three-year CECL transition option). In March 2020, the federal bank regulatory agencies issued an interim final rule that maintains the three-year CECL transition option of the 2019 CECL Rule and also provides banking organizations that were required under GAAP to implement CECL before the end of 2020 the option to delay for two years an estimate of the effect of CECL on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year CECL transition option). We adopted CECL on January 1, 2020 and have elected to utilize the five-year CECL transition option.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of CET1, Tier 1 and total capital to risk-weighted assets and of Tier 1 capital to average assets, each as defined in the regulations. Management believes, as of September 30, 2021, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

Financial institutions are categorized as well capitalized based on total risk-based, Tier 1 risk-based, CET1 and Tier 1 leverage ratios. As shown in the table below, the Company's and the Bank's capital ratios exceeded the regulatory definition of well capitalized as of September 30, 2021 and December 31, 2020. The regulatory authorities can apply changes in classification of assets and such changes may retroactively subject the Company and the Bank to changes in capital ratios. Any such change could reduce one or more capital ratios below well-capitalized status. In addition, a change may result in imposition of

additional assessments by the FDIC or could result in regulatory actions that could have a material effect on our condition and results of operations.

Because our Bank had less than \$15.0 billion in total consolidated assets as of December 31, 2009, we are allowed to continue to classify our trust preferred securities, all of which were issued prior to May 19, 2010, as Tier 1 capital.

The table below summarizes our actual and required capital ratios under the Basel III Capital Rules. The ratios presented below include the effects of our election to utilize the five-year CECL transition described above.

<i>(dollars in thousands)</i>	Actual		Minimum Capital Required(2)		Capital Required to be Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
September 30, 2021						
CET1						
Company	\$ 2,883,517	10.70 %	\$ 1,886,355	7.00 %	N/A	N/A
Bank	2,950,866	10.97 %	1,882,136	7.00 %	1,747,697	6.50 %
Total capital (to risk-weighted assets)						
Company	4,027,375	14.95 %	2,829,533	10.50 %	2,694,793	10.00 %
Bank	3,523,923	13.11 %	2,823,203	10.50 %	2,688,765	10.00 %
Tier 1 capital (to risk-weighted assets)						
Company	3,293,517	12.22 %	2,290,574	8.50 %	1,616,876	6.00 %
Bank	3,110,866	11.57 %	2,285,450	8.50 %	2,151,012	8.00 %
Tier 1 capital (to average assets)(1)						
Company	3,293,517	8.96 %	1,469,597	4.00 %	N/A	N/A
Bank	3,110,866	8.47 %	1,468,949	4.00 %	1,836,186	5.00 %
December 31, 2020						
CET1						
Company	\$ 2,708,150	9.35 %	\$ 2,026,806	7.00 %	N/A	N/A
Bank	2,744,211	9.48 %	2,025,417	7.00 %	1,880,745	6.50 %
Total capital (to risk-weighted assets)						
Company	3,498,737	12.08 %	3,040,209	10.50 %	2,895,437	10.00 %
Bank	3,375,983	11.67 %	3,038,126	10.50 %	2,893,453	10.00 %
Tier 1 capital (to risk-weighted assets)						
Company	2,968,150	10.25 %	2,461,121	8.50 %	1,737,262	6.00 %
Bank	2,904,211	10.04 %	2,459,435	8.50 %	2,314,763	8.00 %
Tier 1 capital (to average assets)(1)						
Company	2,968,150	7.52 %	1,578,651	4.00 %	N/A	N/A
Bank	2,904,211	7.36 %	1,578,207	4.00 %	1,972,758	5.00 %

(1) The Tier 1 capital ratio (to average assets) is not impacted by the Basel III Capital Rules; however, the Federal Reserve Board and the FDIC may require the Company and the Bank, respectively, to maintain a Tier 1 capital ratio (to average assets) above the required minimum.

(2) Percentages represent the minimum capital ratios plus, as applicable, the fully phased-in 2.5% CET1 capital buffer under the Basel III Capital Rules.

Our mortgage finance loan volumes can increase significantly at month-end, causing a meaningful difference between ending and average balances for any period. As CET1, Tier 1 and total capital ratios are calculated using quarter-end risk-weighted assets and our mortgage finance loans are 100% risk-weighted (excluding MCA loans held for sale, which receive lower risk weights), the period-end fluctuation in these balances can significantly impact our reported ratios. Due to the actual risk profile and liquidity of this asset class, we do not believe that the period-end balance is representative of risk characteristics that would justify higher allocations, and while we manage capital allocated to mortgage finance loans based on changing trends in average balances, we do monitor our capital allocation to confirm that all capital levels remain above well-capitalized levels. To better align the actual risk profile of this asset class to its required capital allocation, the Bank issued and sold senior unsecured credit-linked notes in the first quarter of 2021 that effectively transfer the risk of first losses on a \$2.2 billion reference pool of the Bank's mortgage warehouse loans to the purchasers of the notes in an amount up to \$275.0 million. The issuance of these notes decreases the required risk-weight on the \$2.2 billion reference pool, which significantly improves our reported ratios.

Dividends that may be paid by banks are routinely restricted by various regulatory authorities, including federal banking law requirements concerning the payment of dividends. The Basel III Capital Rules further limit the amount of dividends that may be paid by us or our Bank. No dividends were declared or paid on our common stock during the nine months ended September 30, 2021, or during the year ended December 31, 2020.

(9) Stock-based Compensation

We have long-term incentive plans under which stock-based compensation awards are granted to employees and directors by the board of directors, or its designated committee. Grants are subject to vesting requirements and may include, among other things, nonqualified stock options, stock appreciation rights (“SARs”), restricted stock units (“RSUs”), restricted stock and performance units, or any combination thereof. There are 2,550,000 total shares authorized for grant under the plans.

The table below summarizes our stock-based compensation expense:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Stock-settled awards:				
RSUs	\$ 8,324	\$ 4,794	\$ 22,099	\$ 11,326
Restricted stock	—	5	1	22
Cash-settled units	64	236	1,092	716
Total	\$ 8,388	\$ 5,035	\$ 23,192	\$ 12,064

(in thousands except period data)	September 30, 2021
Unrecognized compensation expense related to unvested stock-settled awards	\$ 39,463
Weighted average period over which expense is expected to be recognized, in years	2.5

(10) Fair Value Disclosures

We determine the fair market values of our assets and liabilities measured at fair value on a recurring and nonrecurring basis using the fair value hierarchy as prescribed in ASC 820. See Note 1 - Operations and Summary of Significant Accounting Policies in our 2020 Form 10-K for information regarding the fair value hierarchy and a description of the methods and significant assumptions used by the Company in estimating its fair value disclosures for financial instruments.

Assets and liabilities measured at fair value are as follows:

(in thousands)	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
September 30, 2021			
Available-for-sale debt securities:(1)			
U.S. government agency securities	\$ —	\$ 121,920	\$ —
Residential mortgage-backed securities	—	3,304,722	—
Tax-exempt asset-backed securities	—	—	184,820
CRT securities	—	—	11,804
Equity securities(1)(2)	33,511	7,097	—
Loans held for sale(3)	—	658	7,701
Derivative assets(5)	—	56,940	—
Derivative liabilities(5)	—	56,940	—
Non-qualified deferred compensation plan liabilities(6)	28,186	—	—
December 31, 2020			
Available-for-sale debt securities:(1)			
U.S. government agency securities	\$ —	\$ 123,589	\$ —
Residential mortgage-backed securities	—	2,828,956	—
Tax-exempt asset-backed securities	—	—	199,176
CRT securities	—	—	11,417
Equity securities(1)(2)	26,593	7,239	—
Loans held for sale(3)	—	232,147	6,933
Loans held for investment(4)	—	—	21,209
Derivative assets(5)	—	102,720	—
Derivative liabilities(5)	—	99,255	—
Non-qualified deferred compensation plan liabilities(6)	26,593	—	—

- (1) Securities are measured at fair value on a recurring basis, generally monthly, except for tax-exempt asset-backed securities and CRT securities which are measured quarterly.
- (2) Equity securities consist of investments that qualify for consideration under the regulations implementing the Community Reinvestment Act and investments related to our non-qualified deferred compensation plan.
- (3) Loans held for sale purchased through the MCA program are measured at fair value on a recurring basis, generally monthly.
- (4) Includes certain collateral-dependent loans held for investment for which a specific allocation of the allowance for credit losses is based upon the fair value of the loan's underlying collateral. These loans held for investment are measured on a nonrecurring basis, generally annually or more often as warranted by market and economic conditions.
- (5) Derivative assets and liabilities are measured at fair value on a recurring basis, generally quarterly.
- (6) Non-qualified deferred compensation plan liabilities represent the fair value of the obligation to the employee, which generally corresponds to the fair value of the invested assets, and are measured at fair value on a recurring basis, generally monthly.

Level 3 Valuations

The following table presents a reconciliation of the Level 3 fair value category measured at fair value on a recurring basis:

	Net Realized/Unrealized Gains (Losses)						
(in thousands)	Balance at Beginning of Period	Purchases / Additions	Sales / Reductions	Realized	Unrealized	Balance at End of Period	
Three months ended September 30, 2021							
Available-for-sale debt securities:(1)							
Tax-exempt asset-backed securities	\$ 185,954	\$ —	\$ (2,270)	\$ —	\$ 1,136	\$ 184,820	
CRT securities	11,713	—	—	—	91	11,804	
Loans held for sale(2)	8,227	440	(870)	—	(96)	7,701	
Three months ended September 30, 2020							
Available-for-sale debt securities:(1)							
Tax-exempt asset-backed securities	\$ 191,417	\$ —	\$ (2,248)	\$ —	\$ 11,652	\$ 200,821	
CRT securities	10,953	—	—	—	105	11,058	
Loans held for sale(2)	6,159	785	(170)	132	68	6,974	
Nine months ended September 30, 2021							
Available-for-sale debt securities:(1)							
Tax-exempt asset-backed securities	\$ 199,176	\$ —	\$ (13,783)	\$ —	\$ (573)	\$ 184,820	
CRT securities	11,417	—	—	—	387	11,804	
Loans held for sale(2)	6,933	2,125	(1,395)	5	33	7,701	
Nine months ended September 30, 2020							
Available-for-sale debt securities:(1)							
Tax-exempt asset-backed securities	\$ 197,027	\$ 8,470	\$ (6,733)	\$ —	\$ 2,057	\$ 200,821	
CRT securities	11,964	—	—	—	(906)	11,058	
Loans held for sale(2)	7,043	1,105	(1,634)	248	212	6,974	

- (1) Unrealized gains/(losses) on available-for-sale debt securities are recorded in AOCI and relate to assets that remain outstanding at period end. Realized gains/(losses) are recorded in other non-interest income.
- (2) Realized and unrealized gains/(losses) on loans held for sale are recorded in gain/(loss) on sale of loans held for sale.

Tax-exempt asset-backed securities

The fair value of tax-exempt asset-backed securities is based on a discounted cash flow model, which utilizes Level 3, or unobservable, inputs, the most significant of which were a discount rate and a weighted-average life. At September 30, 2021, the discount rates utilized ranged from 2.25% to 2.37% and the weighted-average life ranged from 4.8 to 4.9 years. On a combined amortized cost weighted-average basis a discount rate of 2.30% and weighted-average life of 4.8 years were utilized to determine the fair value of these securities at September 30, 2021. At December 31, 2020, the combined weighted-average discount rate and weighted-average life utilized were 2.49% and 5.5 years, respectively.

CRT securities

The fair value of CRT securities is based on a discounted cash flow model, which utilizes Level 3, or unobservable, inputs, the most significant of which were a discount rate and a weighted-average life. At September 30, 2021, the discount rates utilized ranged from 3.12% to 7.99% and the weighted-average life ranged from 5.0 years to 9.8 years. On a combined amortized cost weighted-average basis a discount rate of 4.74% and a weighted-average life of 6.6 years were utilized to determine the fair value of these securities at September 30, 2021. At December 31, 2020, the combined weighted-average discount rate and combined weighted-average life utilized were 4.36% and 7.5 years, respectively.

Loans held for sale

The fair value of loans held for sale using Level 3 inputs include loans that cannot be sold through normal sale channels and thus require significant management judgment or estimation when determining the fair value. The fair value of such loans is generally based upon quoted prices of comparable loans with a liquidity discount applied. At September 30, 2021, the fair value of these loans was calculated using a weighted-average discounted price of 97.9%, compared to 97.2% at December 31, 2020.

Loans held for investment

Certain collateral-dependent loans held for investment are reported at fair value when, based upon an individual evaluation, the specific allocation of the allowance for credit losses that is deducted from the loan's amortized cost is based upon the fair value of the loan's underlying collateral. There were no collateral-dependent loans held for investment reported at fair value at September 30, 2021. The \$21.2 million fair value of loans held for investment at December 31, 2020 reported above includes loans with a carrying value of \$25.3 million that were reduced by specific allowance allocations totaling \$4.1 million based on collateral valuations utilizing Level 3 inputs.

Fair Value of Financial Instruments

A summary of the carrying amounts and estimated fair values of financial instruments is as follows:

(in thousands)	September 30, 2021		December 31, 2020	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Level 1 inputs:				
Cash and cash equivalents	\$ 8,535,051	\$ 8,535,051	\$ 9,206,380	\$ 9,206,380
Investment securities	33,511	33,511	26,593	26,593
Level 2 inputs:				
Investment securities	3,433,739	3,433,739	2,959,784	2,959,784
Loans held for sale	658	658	232,147	232,147
Derivative assets	56,940	56,940	102,720	102,720
Level 3 inputs:				
Investment securities	196,624	196,624	210,593	210,593
Loans held for sale	7,701	7,701	6,933	6,933
Loans held for investment, net	23,527,760	23,575,556	24,176,245	24,233,185
Financial liabilities:				
Level 2 inputs:				
Federal funds purchased and repurchase agreements	3,470	3,470	111,751	111,751
Other borrowings	2,200,000	2,200,000	3,000,000	3,000,000
Long-term debt	928,062	953,859	395,896	405,110
Derivative liabilities	56,940	56,940	99,255	99,255
Level 3 inputs:				
Deposits	29,813,668	29,814,204	30,996,589	30,997,980

(11) Derivative Financial Instruments

The notional amounts and estimated fair values of derivative positions outstanding are presented in the following table. All derivative positions related to residential MSRs and loans held for sale were closed as of September 30, 2021 as a result of the sale of our MSR portfolio and transition of the MCA program to a third-party.

(in thousands)	September 30, 2021			December 31, 2020		
	Notional Amount	Estimated Fair Value		Notional Amount	Estimated Fair Value	
		Asset Derivative	Liability Derivative		Asset Derivative	Liability Derivative
Non-hedging derivatives:						
Financial institution counterparties:						
Commercial loan/lease interest rate swaps	\$ 1,857,977	\$ 1,320	\$ 56,884	\$ 1,922,956	\$ 71	\$ 96,246
Commercial loan/lease interest rate caps	204,655	56	—	565,634	34	—
Foreign currency forward contracts	—	—	—	6,667	214	78
Customer counterparties:						
Commercial loan/lease interest rate swaps	1,857,977	56,884	1,320	1,922,956	96,246	71
Commercial loan/lease interest rate caps	204,655	—	56	565,634	—	34
Foreign currency forward contracts	—	—	—	6,667	78	214
Economic hedging derivatives to hedge:						
Residential MSRs:						
Interest rate swap futures	—	—	—	320,000	474	—
Forward sale commitments	—	—	—	155,000	551	—
Loans held for sale:						
Loan purchase commitments	—	—	—	332,145	5,123	8
Forward sale commitments	—	—	—	485,326	—	2,675
Gross derivatives		58,260	58,260		102,791	99,326
Offsetting derivative assets/liabilities		(1,320)	(1,320)		(71)	(71)
Net derivatives included in the consolidated balance sheets		\$ 56,940	\$ 56,940		\$ 102,720	\$ 99,255

The weighted-average received and paid interest rates for interest rate swaps outstanding were as follows:

	September 30, 2021 Weighted-Average Interest Rate		December 31, 2020 Weighted-Average Interest Rate	
	Received	Paid	Received	Paid
Non-hedging interest rate swaps	2.74 %	1.15 %	3.14 %	1.38 %

The weighted-average strike rate for outstanding interest rate caps was 2.67% at September 30, 2021 and 3.41% at December 31, 2020.

Our credit exposure on derivative instruments is limited to the net favorable value and interest payments by each counterparty. In some cases collateral may be required from the counterparties involved if the net value of the derivative instruments exceeds a nominal amount. Our credit exposure associated with these instruments, net of any collateral pledged, was approximately \$56.9 million at September 30, 2021, and approximately \$102.7 million at December 31, 2020. Collateral levels are monitored and adjusted on a regular basis for changes in interest rate swap and cap values, as well as for changes in the value of forward sale commitments. At September 30, 2021, we had \$62.1 million in cash collateral pledged for these derivatives that is included in interest-bearing deposits in other banks. At December 31, 2020, we had \$108.3 million in cash collateral pledged for these derivatives, of which \$104.4 million was included in interest-bearing deposits in other banks and \$3.9 million was included in accrued interest receivable and other assets.

We also enter into credit risk participation agreements with financial institution counterparties for interest rate swaps related to loans in which we are either a participant or a lead bank. The risk participation agreements entered into by us as a participant bank provide credit protection to the financial institution counterparty should the borrower fail to perform on its interest rate derivative contract with that financial institution. We are party to eight risk participation agreements where we are a participant bank with a notional amount of \$109.2 million at September 30, 2021, compared to nine risk participation agreements having a notional amount of \$119.5 million at December 31, 2020. The maximum estimated exposure to these agreements, assuming 100% default by all obligors, was approximately \$3.2 million at September 30, 2021 and \$6.0 million at December 31, 2020. The fair value of these exposures was insignificant to the consolidated financial statements at both September 30, 2021 and December 31, 2020. Risk participation agreements entered into by us as the lead bank provide credit protection to us should the borrower fail to perform on its interest rate derivative contract with us. We are party to 16 risk participation agreements where

we are the lead bank having a notional amount of \$167.4 million at September 30, 2021, compared to 16 agreements having a notional amount of \$165.9 million at December 31, 2020.

(12) Material Transactions Affecting Stockholders' Equity

On March 3, 2021, we completed an issuance of 5.75% fixed rate non-cumulative perpetual preferred stock, Series B, with a liquidation preference of \$1,000 per share (equivalent to \$25 per depositary share) (the "Series B Preferred Stock") and an issuance and sale of 12,000,000 depositary shares, each representing a 1/40th interest in a share of the Series B Preferred Stock. Dividends on the Series B Preferred Stock are not cumulative and will be paid when declared by our board of directors to the extent that we have legally available funds to pay dividends. If declared, dividends will accrue and be payable quarterly, in arrears, on the liquidation preference amount, on a non-cumulative basis, at a rate of 5.75% per annum. Holders of preferred stock will not have voting rights, except with respect to certain changes in the terms of the preferred stock, certain dividend non-payments and as otherwise required by applicable law. Net proceeds from the sale totaled \$289.7 million, providing additional capital to be used for general corporate purposes. A portion of the proceeds were also used to redeem, in whole, our 6.50% non-cumulative perpetual preferred stock Series A, par value \$0.01 per share, in accordance with its terms.

On June 15, 2021 we redeemed all 6,000,000 outstanding shares of our 6.50% non-cumulative perpetual preferred stock, Series A.

(13) New Accounting Standards

ASU 2020-04, "*Reference Rate Reform (Topic 848)*" ("ASU 2020-04") provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. For transactions that are modified because of reference rate reform and that meet certain scope guidance (i) modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate and the modification will be considered "minor" so that any existing unamortized origination fees/costs would carry forward and continue to be amortized and (ii) modifications of lease agreements should be accounted for as a continuation of the existing agreement with no reassessments of the lease classification and the discount rate or remeasurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. ASU 2020-04 also provides numerous optional expedients for derivative accounting. ASU 2020-04 is effective March 12, 2020 through December 31, 2022. An entity may elect to apply ASU 2020-04 for contract modifications as of January 1, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic within the Codification, the amendments in this ASU must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. We anticipate this ASU will simplify any modifications we execute between the selected start date (yet to be determined) and December 31, 2022 that are directly related to LIBOR transition by allowing prospective recognition of the continuation of the contract, rather than extinguishment of the old contract resulting in writing off unamortized fees/costs. The adoption of this ASU did not significantly impact our consolidated financial statements.

ASU 2021-05, "*Leases (Topic 842)*" ("ASU 2021-05") amends guidance to allow lessors to classify as an operating lease any lease that would otherwise be classified as a sales-type or direct financing lease and that would result in the recognition of a day-one loss at lease commencement, provided that the lease includes variable lease payments that does not depend on an index or rate. ASU 2021-05 will be effective for us on January 1, 2022 and is not expected to have an impact on our consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition as of September 30, 2021 and December 31, 2020 and results of operations for the three and nine month periods ended September 30, 2021 and September 30, 2020 should be read in conjunction with our consolidated financial statements and the related notes to the consolidated financial statements for the year ended December 31, 2020, and the other information included in our Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 Form 10-K"). Certain risks, uncertainties and other factors, including those set forth under "Risk Factors" in Part I, Item 1A of the 2020 Form 10-K may cause actual results to differ materially from the results discussed in the forward-looking statements appearing in this discussion and analysis.

Forward-Looking Statements

Certain statements and financial analysis contained in this report that are not historical facts may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our beliefs, assumptions and expectations of our future performance taking into account all information available to us at the time such statements are made. Forward-looking statements may often be identified by the use of words such as "expects," "estimates," "anticipates," "plans," "goals," "objectives," "intends," "seeks," "likely," "should," "may" "could" and other similar expressions.

Forward-looking statements may include, among other things and without limitation, statements about the credit quality of our loan portfolio, general economic conditions in the United States and in our markets, including the continued impact on our customers from volatility in oil and gas prices, the material risks and uncertainties for the U.S. and world economies and for our business, resulting from the COVID-19 pandemic, expectations regarding rates of default and loan losses, volatility in the mortgage industry, our business strategies and our expectations about future financial performance, future growth and earnings, the appropriateness of our allowance for credit losses and provision for credit losses, the impact of changing regulatory requirements and legislative changes on our business, increased competition, interest rate risk, new lines of business, new product or service offerings and new technologies.

Forward-looking statements are subject to various risks and uncertainties, which change over time, are based on management's expectations and assumptions at the time the statements are made and are not guarantees of future results. Important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include, but are not limited to, the following:

- Deterioration of the credit quality of our loan portfolio or declines in the value of collateral related to external factors such as commodity prices, real estate values or interest rates, increased default rates and loan losses or adverse changes in the industry concentrations of our loan portfolio attributed to changes in the U.S. economy in general or the Texas economy specifically.
- The adverse effect of the COVID-19 pandemic on us and our customers, employees and third-party service providers; the material adverse impacts of the COVID-19 pandemic on our business, financial position, operations and prospects. It is not possible to accurately predict the extent, severity or duration of the COVID-19 pandemic or to what level and when normal economic and operational conditions will return. This also includes the incurrence of material costs and liabilities associated with legal and regulatory proceedings, investigations, inquiries and related matters with respect to the financial services industry, including those directly involving us or our Bank and arising from our participation in government stimulus programs responding to the economic impact of the COVID-19 pandemic.
- Operational issues stemming from, and/or capital spending necessitated by, the potential need to adapt to industry changes in information technology systems, on which we are highly dependent. This also includes the failure to manage information systems risk or to prevent cyber-incidents against us, our customers or our third-party vendors, or to manage risks from failures, disruptions or security breaches affecting us, our customers or our third-party vendors, which risks have been materially enhanced by our increased reliance on technology to support associates working outside our offices.
- The costs and effects of cyber-incidents or other failures, disruptions or security breaches of our systems or those of our third-party providers.
- Changes in interest rates, which may affect our net income and other future cash flows, or the market value of our assets, including the market value of investment securities.
- Changes in the value of commercial and residential real estate securing our loans or in the demand for credit to support the purchase and ownership of such assets.
- Changing economic conditions or other developments adversely affecting our commercial, entrepreneurial and professional customers.

- Adverse economic or market conditions and other factors in Texas, the United States or internationally that could affect the credit quality of our loan portfolio or our operating performance, including any conditions or factors affecting our middle market customers and their ability to continue to meet their loan obligations.
- The failure to correctly assess and model the assumptions supporting our allowance for credit losses, causing it to become inadequate in the event of deteriorations in loan quality and increases in charge-offs, or increases or decreases to our allowance for credit losses as a result of the implementation of CECL.
- Changes in the U.S. economy in general or the Texas economy specifically resulting in deterioration of credit quality, increases in non-performing assets or charge-offs or reduced demand for credit or other financial services we offer, including the effects from declines in the level of drilling and production related to volatility in oil and gas prices and the effects of the COVID-19 pandemic.
- Adverse changes in economic or market conditions, in Texas, the United States or internationally, that could affect the credit quality of our loan portfolio or our operating performance.
- Unexpected market conditions, regulatory changes or changes in our credit ratings that could, among other things, cause access to capital market transactions and other sources of funding to become more difficult to obtain on terms and conditions that are acceptable to us.
- The inadequacy of our available funds to meet our deposit, debt and other obligations as they become due, or our failure to maintain our capital ratios as a result of adverse changes in our operating performance or financial condition, or changes in applicable regulations or regulator interpretation of regulations impacting our business or the characterization or risk weight of our assets.
- The failure to effectively balance our funding sources with cash demands by depositors and borrowers.
- Material failures of our accounting estimates and risk management processes based on management judgment, or the supporting analytical and forecasting models.
- Failure of our risk management strategies and procedures, including failure or circumvention of our controls.
- The failure to effectively manage our interest rate risk resulting from unexpectedly large or sudden changes in interest rates, maturity imbalances in our assets and liabilities, potential adverse effects to our borrowers including their inability to repay loans with increased interest rates and the impact to our net interest income from the increasing cost of interest-bearing deposits.
- The failure of our enterprise risk management framework, our compliance program, or our corporate governance and supervisory oversight functions to timely identify and address emerging risks adequately, which may result in unexpected losses.
- Uncertainty regarding the upcoming transition away from the London Interbank Offered Rate, or LIBOR, toward new interest rate benchmarks and our ability to successfully implement any new interest rate benchmarks.
- Legislative and regulatory changes imposing further restrictions and costs on our business, a failure to maintain well capitalized or well managed status or any regulatory enforcement actions brought against us and uncertainty related to future implementation and enforcement of regulatory requirements resulting from the current political environment.
- The effect of changes in laws, regulations, policies and guidelines (including, among others, laws, regulations, policies and guidelines concerning taxes, banking, accounting, securities and monetary and fiscal policies) with which we and our subsidiaries must generally comply, including those promulgated by the U.S. government, U.S. Department of Treasury and the Federal Reserve and any changes made by the new Biden Administration and the effects of any such changes on our business and results of operations.
- The failure to successfully execute our business strategy, which may include expanding into new markets, developing and launching new lines of business or new products and services within the expected timeframes and budgets, completing planned merger, acquisition or sale transactions or to successfully manage the risks related to the development and implementation of these new businesses, products or services.
- The failure to identify, attract and retain key personnel or the loss of key individuals or groups of employees.
- Increased or more effective competition from banks and other financial service providers in our markets.
- Structural changes in the markets for origination, sale and servicing of residential mortgages.
- Uncertainty in the pricing of mortgage loans that we purchase, and later sell or securitize, as well as competition for the mortgage servicing rights related to these loans and related interest rate risk or price risk resulting from retaining mortgage servicing rights, and the potential effects of higher interest rates on our Mortgage Correspondent Aggregation loan volumes.

- Credit risk resulting from our exposure to counterparties.
- An increase in the incidence or severity of fraud, illegal payments, security breaches and other illegal acts impacting our subsidiary, Texas Capital Bank (the “Bank”) and our customers.
- The failure to maintain adequate regulatory capital to support our business, including the unavailability of funds obtained from borrowing or capital transactions or from our Bank to fund our obligations.
- Environmental liability associated with properties related to our lending activities.
- Severe weather, natural disasters, acts of war or terrorism and other external events.

Actual outcomes and results may differ materially from what is expressed in our forward-looking statements and from our historical financial results due to the factors discussed above or elsewhere in this report or disclosed in our other U.S. Securities and Exchange Commission (“SEC”) filings. Forward-looking statements included herein speak only as of the date hereof and should not be relied upon as representing our expectations or beliefs as of any date subsequent to the date of this report. Except as required by law, we undertake no obligation to revise any forward-looking statements contained in this report, whether as a result of new information, future events or otherwise. The factors discussed herein are not intended to be a complete summary of all risks and uncertainties that may affect our businesses. Though we strive to monitor and mitigate risk, we cannot anticipate all potential economic, operational and financial developments that may adversely impact our operations and our financial results. Forward-looking statements should not be viewed as predictions and should not be the primary basis upon which investors evaluate an investment in our securities.

Overview of Our Business Operations

We commenced our banking operations in December 1998. An important aspect of our growth strategy has been our ability to effectively service and manage a large number of loans and deposit accounts in multiple markets in Texas, as well as several lines of business serving a regional or national clientele of commercial borrowers. Early in 2021, we embarked on an enterprise-wide transformation which included detailed reviews of all of our business lines, our operating model, our investment spend and our overall strategy, which resulted in the September 1, 2021 announcement by management of our new long-term strategy. This new long-term strategy will ensure that we are best positioned to serve clients and capitalize on business opportunities going forward. This new plan includes focusing on building a technology-enabled operating model organized around client delivery and investing in technology. To achieve these goals we are pursuing an aggressive hiring plan to significantly increase the number of client-facing professionals by 2025, and we are also investing in new technologies and lines of business to become a full-service financial services firm for our clients, with the goal of improving client relationships and fee income. We are investing in treasury solutions product and service offerings, building on our existing private wealth business and expanding the scope of our investment banking product and service offerings, which will include the establishment of a broker-dealer service.

In May 2021 the Bank applied to the Texas Department of Banking to convert from a national association to a Texas state-chartered bank. The application was approved during the third quarter and the conversion was effective at open of business on September 15, 2021. Effective as of the date of conversion, the Texas Department of Banking is the Bank’s primary regulator, the Federal Deposit Insurance Corporation is the Bank’s primary federal regulator and the Federal Reserve will continue to be the Company’s primary federal regulator.

Significant transactions affecting our financial statements during the nine months ended September 30, 2021 included:

- Issuance of 5.75% fixed rate non-cumulative perpetual preferred stock, Series B (the “Series B Preferred Stock” and issuance and sale of 12,000,000 depository shares, each representing a 1/40th interest in a share of the Series B Preferred Stock. Net proceeds from the sale totaled \$289.7 million. The additional equity is being used for general corporate purposes, including funding regulatory capital infusions into the Bank, and may be used to redeem, in whole or in part and subject to receipt of all applicable regulatory approvals, our 6.5% non-cumulative perpetual preferred stock Series A, par value \$0.01 per share, in accordance with its terms;
- Issuance of \$275.0 million in senior unsecured credit-linked notes that mature on September 30, 2024. The net proceeds of the offering will be used to expand the Bank's warehouse lending program and better serve our clients in all market environments;
- Sale of our portfolio of mortgage servicing rights (“MSRs”) and transition of the Mortgage Correspondent Aggregation (“MCA”) program to a third-party. For additional information, see Note 5 - Certain Transfers of Financial Assets in the accompanying notes to the consolidated financial statements included elsewhere in this report;
- Issuance and sale of \$375.0 million of 4.00% fixed-to-fixed rate subordinated notes due 2031. For additional information, see Note 6 - Long-Term Debt in the accompanying notes to the consolidated financial statements included elsewhere in this report;

- Redemption of our 6.50% non-cumulative perpetual preferred stock, Series A (the “Series A Preferred Stock”). For additional information, see Note 12 - Material Transactions Affecting Stockholders' Equity in the accompanying notes to the consolidated financial statements included elsewhere in this report;
- Redemption of our 6.50% subordinated notes due 2042. For additional information, see Note 6 - Long-Term Debt in the accompanying notes to the consolidated financial statements included elsewhere in this report; and
- \$12.0 million write-off of certain software assets to reposition our capitalized technology investment to align with the long-term strategy as announced by management in the third quarter of 2021.

Impact of COVID-19 Pandemic

The COVID-19 pandemic and related restrictive measures taken by governments, businesses and individuals have caused and continue to cause unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States and globally, including the markets that we serve. As the restrictive measures began to be eased during the latter part of 2020 and continue to be eased during 2021, the U.S. economy has begun to improve from 2020, and with the availability and distribution of COVID-19 vaccines, we anticipate continued improvements in commercial and consumer activity and the U.S. economy. During the first quarter of 2021, the governor of Texas removed all restrictions initially set in place which has allowed businesses, including ours as well as our clients' businesses, to reopen at full capacities.

While positive tailwinds exist, we recognize that our business and consumer customers are continuing to experience varying degrees of financial distress, which we expect to continue, though to a lesser degree, throughout 2021. Commercial activity has improved, but has not returned to the levels existing prior to the outbreak of the COVID-19 pandemic, which may result in our customers' inability to meet their loan obligations to us. In addition, the economic pressures and uncertainties related to the COVID-19 pandemic have seemingly resulted in changes in consumer spending behaviors, which may negatively impact the demand for loans and other services we offer. Our borrowing base includes customers in industries such as energy, hotel/lodging, restaurants, entertainment, retail and commercial real estate, which have been significantly impacted by the COVID-19 pandemic. We recognize that these industries may take longer to recover as consumers may be hesitant to return to full social interaction or may change their spending habits on a more permanent basis as a result of the COVID-19 pandemic. We continue to monitor these customers closely.

We have taken deliberate actions to meet our goal of ensuring that we have the balance sheet strength to serve our clients and communities, including by seeking to increase our liquidity and manage our assets and liabilities in order to maintain a strong capital position; however, future economic conditions are subject to significant uncertainty. Uncertainties associated with the COVID-19 pandemic include the duration of any COVID-19 outbreaks and any related variants, the availability and effectiveness of COVID-19 vaccines, the impact to our customers, employees and vendors and the impact to the economy as a whole. COVID-19 had a significant adverse impact on our business, financial position and operating results for the year ended December 31, 2020 and while uncertainty still exists, we believe we are well-positioned to operate effectively through the present economic environment.

Effective June 1, 2021, we returned to pre-pandemic business operations and brought 100% of our workforce back into the office. Our branch locations are currently open and operating during normal business hours. We continue to take additional precautions within our branch locations, including enhanced cleaning procedures, to ensure the safety of our customers and our employees.

Results of Operations

Summary of Performance

We reported net income of \$43.4 million and net income available to common stockholders of \$39.1 million for the third quarter of 2021 compared to net income of \$57.1 million and net income available to common stockholders of \$54.7 million for the third quarter of 2020. On a fully diluted basis, earnings per common share were \$0.76 for the third quarter of 2021, compared to \$1.08 for the third quarter of 2020. Return on average common equity (“ROE”) was 5.41% and return on average assets (“ROA”) was 0.47% for the third quarter of 2021, compared to 8.24% and 0.59%, respectively, for the third quarter of 2020. The decrease in net income for the third quarter of 2021 resulted primarily from decreases in net interest income and non-interest income, partially offset by decreases in provision for credit losses and non-interest expense. The decrease in net income was the primary driver in the decreases in ROE and ROA.

Net income and net income available to common stockholders for the nine months ended September 30, 2021 totaled \$188.8 million and \$174.4 million, respectively, compared to net income and net loss available to common stockholders of \$6.1 million and \$1.2 million, respectively, for the same period in 2020. On a fully diluted basis, earnings per common share were \$3.41 for the nine months ended September 30, 2021, compared to a loss per common share of \$0.02 for the same period in 2020. ROE was 8.35% and ROA was 0.66% for the nine months ended September 30, 2021, compared to a negative 0.06% and 0.02%, respectively, for the same period in 2020. The increase in net income, ROE and ROA for the nine months ended September 30, 2021 resulted primarily from a \$246.0 million decrease in provision for credit losses as compared to the same period in 2020

Details of the changes in the various components of net income are discussed below.

QUARTERLY FINANCIAL SUMMARIES - UNAUDITED
Consolidated Daily Average Balances, Average Yields and Rates

(in thousands except percentages)	Three months ended September 30, 2021			Three months ended September 30, 2020		
	Average Balance	Revenue/Expense	Yield/Rate	Average Balance	Revenue/Expense	Yield/Rate
Assets						
Investment securities – taxable	\$ 3,590,591	\$ 8,546	0.94 %	\$ 525,149	\$ 1,905	1.44 %
Investment securities – non-taxable(2)	185,221	2,138	4.58 %	190,797	2,239	4.67 %
Federal funds sold and securities purchased under resale agreements	653	—	0.12 %	12,051	1	0.04 %
Interest-bearing deposits in other banks	9,045,442	3,606	0.16 %	11,028,962	2,877	0.10 %
Loans held for sale	18,791	54	1.14 %	543,606	3,867	2.83 %
Loans held for investment, mortgage finance	7,987,521	58,913	2.93 %	9,061,984	76,464	3.36 %
Loans held for investment(1)(2)	15,266,167	147,423	3.83 %	16,286,036	157,230	3.84 %
Less reserve for credit losses on loans	220,984	—	—	264,769	—	—
Loans held for investment, net	23,032,704	206,336	3.55 %	25,083,251	233,694	3.71 %
Total earning assets	35,873,402	220,680	2.44 %	37,383,816	244,583	2.60 %
Cash and other assets	855,555			1,037,760		
Total assets	\$ 36,728,957			\$ 38,421,576		
Liabilities and Stockholders' Equity						
Transaction deposits	\$ 3,012,547	\$ 4,737	0.62 %	\$ 4,275,574	\$ 6,652	0.62 %
Savings deposits	10,044,995	8,262	0.33 %	12,786,719	12,808	0.40 %
Time deposits	1,640,562	1,720	0.42 %	2,844,083	8,370	1.17 %
Total interest-bearing deposits	14,698,104	14,719	0.40 %	19,906,376	27,830	0.56 %
Other borrowings	2,299,692	748	0.13 %	2,811,435	3,493	0.49 %
Long-term debt	927,626	10,586	4.53 %	395,749	4,839	4.87 %
Total interest-bearing liabilities	17,925,422	26,053	0.58 %	23,113,560	36,162	0.62 %
Demand deposits	15,363,568			12,202,065		
Other liabilities	275,317			314,500		
Stockholders' equity	3,164,650			2,791,451		
Total liabilities and stockholders' equity	\$ 36,728,957			\$ 38,421,576		
Net interest income(2)		\$ 194,627			\$ 208,421	
Net interest margin			2.15 %			2.22 %
Net interest spread			1.86 %			1.98 %
Loan spread(3)			3.36 %			3.33 %

- (1) The loan averages include non-accrual loans and are stated net of unearned income.
(2) Taxable equivalent rates used where applicable.
(3) Yield on loans, net of reserves, less funding cost including all deposits and borrowed funds.

	Nine months ended September 30, 2021			Nine months ended September 30, 2020		
(in thousands except percentages)	Average Balance	Revenue/Expense	Yield/Rate	Average Balance	Revenue/Expense	Yield/Rate
Assets						
Investment securities – taxable	\$ 3,394,028	\$ 25,880	1.02 %	\$ 203,437	\$ 2,364	1.55 %
Investment securities – non-taxable(2)	187,817	6,532	4.65 %	194,049	6,983	4.81 %
Federal funds sold and securities purchased under resale agreements	1,976	1	0.09 %	151,892	692	0.61 %
Interest-bearing deposits in other banks	10,812,903	9,499	0.12 %	9,265,177	24,777	0.36 %
Loans held for sale	117,604	2,430	2.76 %	1,350,581	33,894	3.35 %
Loans held for investment, mortgage finance	7,875,138	181,256	3.08 %	8,267,307	206,306	3.33 %
Loans held for investment(1)(2)	15,321,641	449,134	3.92 %	16,632,017	529,981	4.26 %
Less reserve for loan losses	238,996	—	—	234,587	—	—
Loans held for investment, net	22,957,783	630,390	3.67 %	24,664,737	736,287	3.99 %
Total earning assets	37,472,111	674,732	2.41 %	35,829,873	804,997	3.00 %
Cash and other assets	971,628			1,030,076		
Total assets	\$ 38,443,739			\$ 36,859,949		
Liabilities and Stockholders' Equity						
Transaction deposits	\$ 3,596,301	\$ 15,993	0.59 %	\$ 3,991,908	\$ 26,232	0.88 %
Savings deposits	11,400,029	28,040	0.33 %	12,133,598	62,279	0.69 %
Time deposits	1,864,867	6,961	0.50 %	3,039,619	33,787	1.48 %
Total interest-bearing deposits	16,861,197	50,994	0.40 %	19,165,125	122,298	0.85 %
Other borrowings	2,443,853	3,842	0.21 %	3,146,756	18,489	0.78 %
Long-term debt	759,584	27,052	4.76 %	395,659	15,146	5.11 %
Total interest-bearing liabilities	20,064,634	81,888	0.55 %	22,707,540	155,933	0.92 %
Demand deposits	14,978,324			11,028,119		
Other liabilities	286,328			293,101		
Stockholders' equity	3,114,453			2,831,189		
Total liabilities and stockholders' equity	\$ 38,443,739			\$ 36,859,949		
Net interest income(2)		\$ 592,844			\$ 649,064	
Net interest margin			2.12 %			2.42 %
Net interest spread			1.86 %			2.08 %
Loan spread(3)			3.46 %			3.39 %

- (1) The loan averages include non-accrual loans and are stated net of unearned income.
(2) Taxable equivalent rates used where applicable.
(3) Yield on loans, net of reserves, less funding cost including all deposits and borrowed funds.

Volume/Rate Analysis

The following table presents the changes in taxable-equivalent net interest income and identifies the changes due to differences in the average volume of earning assets and interest-bearing liabilities and the changes due to differences in the average interest rate on those assets and liabilities.

(in thousands)	Three months ended September 30, 2021/2020			Nine months ended September 30, 2021/2020		
	Net Change	Change due to(1)		Net Change	Change Due To(1)	
		Volume	Yield/Rate(2)		Volume	Yield/Rate(2)
Interest income:						
Investment securities	\$ 6,540	\$ 17,690	\$ (11,150)	\$ 23,065	\$ 89,089	\$ (66,024)
Loans held for sale	(3,813)	(3,733)	(80)	(31,464)	(30,976)	(488)
Loans held for investment, mortgage finance loans	(17,551)	(9,075)	(8,476)	(25,050)	(10,695)	(14,355)
Loans held for investment	(9,807)	(9,844)	37	(80,847)	(41,515)	(39,332)
Federal funds sold and securities purchased under resale agreements	(1)	(1)	—	(691)	(682)	(9)
Interest-bearing deposits in other banks	729	(499)	1,228	(15,278)	17,469	(32,747)
Total	(23,903)	(5,462)	(18,441)	(130,265)	22,690	(152,955)
Interest expense:						
Transaction deposits	(1,915)	(1,968)	53	(10,239)	(1,374)	(8,865)
Savings deposits	(4,546)	(2,757)	(1,789)	(34,239)	1,846	(36,085)
Time deposits	(6,650)	(3,540)	(3,110)	(26,826)	(12,641)	(14,185)
Other borrowings	(2,745)	(630)	(2,115)	(14,647)	(3,431)	(11,216)
Long-term debt	5,747	6,511	(764)	11,906	13,625	(1,719)
Total	(10,109)	(2,384)	(7,725)	(74,045)	(1,975)	(72,070)
Net interest income	\$ (13,794)	\$ (3,078)	\$ (10,716)	\$ (56,220)	\$ 24,665	\$ (80,885)

(1) Yield/rate and volume variances are allocated to yield/rate.

(2) Taxable equivalent rates used where applicable assuming a 21% tax rate.

Net Interest Income

Net interest income was \$194.1 million for the three months ended September 30, 2021, compared to \$207.6 million for the same period in 2020. The decrease was primarily due to declines in total average loans and earning asset yields, partially offset by increases in average investment securities and loan fees, as well as declining cost of funds.

Average earning assets for the three months ended September 30, 2021 decreased \$1.5 billion compared to the same period in 2020, and included a \$3.1 billion increase in average total investment securities, reflecting the deployment of excess liquidity into higher-yielding investment securities, partially offset by a \$2.0 billion decrease in average liquidity assets and a \$2.6 billion decrease in average total loans. Throughout 2020, management took deliberate actions to increase liquidity balances to ensure we had the balance sheet strength to serve our clients during the COVID-19 pandemic. Through the first nine months of 2021 these balances have remained elevated, although they are beginning to run off as we have purchased investment securities and proactively exited certain high-cost indexed deposit products. The decrease in average loans held for sale compared to the third quarter of 2020 resulted from the transition of the MCA program to a third-party. Average interest-bearing liabilities for the three months ended September 30, 2021 decreased \$5.2 billion compared to the same period in 2020, primarily due to a \$5.2 billion decrease in average interest-bearing deposits and a \$511.7 million decrease in average other borrowings, partially offset by a \$531.9 million increase in average long-term debt. Average demand deposits for the three months ended September 30, 2021 increased to \$15.4 billion from \$12.2 billion for the three months ended September 30, 2020.

Net interest margin for the three months ended September 30, 2021 was 2.15% compared to 2.22% for the same period in 2020. The decrease was primarily due to the effect of declining interest rates on earning asset yields and a shift in earning asset composition, primarily increases in lower-yielding investment securities, partially offset by increases in loan fees and lower funding costs compared to the third quarter of 2020.

The yield on total loans held for investment decreased to 3.55% for the three months ended September 30, 2021 compared to 3.71% for the same period in 2020, and the yield on earning assets decreased to 2.44% for the three months ended September 30, 2021 compared to 2.60% for the same period in 2020. The average cost of total deposits decreased to 0.19% for the third quarter of 2021 from 0.34% for the third quarter of 2020 and total funding costs, including all deposits, long-term debt and stockholders' equity, decreased to 0.28% for the third quarter of 2021 compared to 0.38% for the third quarter of 2020.

Net interest income was \$591.2 million for the nine months ended September 30, 2021 compared to \$645.8 million for the same period in 2020. The decrease was primarily due to declines in total average loans and earning asset yields, partially offset by increases in average investment securities and loan fees, as well as declining cost of funds.

Average earning assets increased \$1.6 billion for the nine months ended September 30, 2021, compared to the same period in 2020, and included a \$3.2 billion increase in average total investment securities, reflecting the deployment of excess liquidity into higher-yielding investment securities and a \$1.4 billion increase in average liquidity assets, partially offset by a \$2.9 billion decrease in average total loans. The increases in average total investment securities and liquidity assets were the result of deliberate actions taken by management to enhance the strength of our balance sheet as described above. Average interest-bearing liabilities decreased \$2.6 billion for the nine months ended September 30, 2021, compared to the same period in 2020, primarily due to a \$2.3 billion decrease in average interest-bearing deposits and a \$702.9 million decrease in average other borrowings, partially offset by a \$363.9 million increase in average long-term debt. Average demand deposits for the nine months ended September 30, 2021 increased to \$15.0 billion from \$11.0 billion for the same period in 2020.

Net interest margin for the nine months ended September 30, 2021 was 2.12% compared to 2.42% for the same period of 2020. The decrease was primarily due to the effect of declining interest rates on earning asset yields and a shift in earning asset composition, primarily the increases in lower-yielding investment securities and liquidity assets, partially offset by lower funding costs compared to the same period in 2020.

The yield on total loans held for investment decreased to 3.67% for the nine months ended September 30, 2021, compared to 3.99% for the same period in 2020, and the yield on earning assets decreased to 2.41% for the nine months ended September 30, 2021, compared to 3.00% for the same period in 2020. The average cost of total deposits decreased to 0.21% for the nine months ended September 30, 2021 from 0.54% for the same period in 2020 and total funding costs, including all deposits, long-term debt and stockholders' equity, decreased to 0.29% for the nine months ended September 30, 2021, compared to 0.57% for the same period in 2020.

Non-interest Income

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Service charges on deposit accounts	\$ 4,622	\$ 2,864	\$ 13,972	\$ 8,616
Wealth management and trust fee income	3,382	2,502	9,380	7,317
Brokered loan fees	6,032	15,034	22,276	33,813
Servicing income	292	7,329	15,236	18,195
Swap fees	568	484	1,628	4,709
Net gain/(loss) on sale of loans held for sale	(1,185)	25,242	1,317	51,265
Other	7,509	6,893	26,605	18,698
Total non-interest income	\$ 21,220	\$ 60,348	\$ 90,414	\$ 142,613

Non-interest income decreased by \$39.1 million during the three months ended September 30, 2021 compared to the same period in 2020. The decrease was primarily due to decreases in net gain/(loss) on sale of loans held for sale, brokered loan fees and servicing income, all resulting from the 2021 sale of our MSR portfolio and transition of the MCA program to a third-party.

Non-interest income decreased by \$52.2 million during the nine months ended September 30, 2021 compared to the same period in 2020. The decrease was primarily due to decreases in net gain/(loss) on sale of loans held for sale, brokered loan fees and servicing income, all resulting from the 2021 sale of our MSR portfolio and transition of the MCA program to a third-party.

Non-interest Expense

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Salaries and employee benefits	\$ 87,503	\$ 84,096	\$ 261,855	\$ 262,080
Net occupancy expense	8,324	8,736	24,463	26,582
Marketing	2,123	3,636	5,720	20,146
Legal and professional	11,055	11,207	28,479	40,003
Communications and technology	28,374	31,098	58,695	87,649
FDIC insurance assessment	4,500	6,374	16,339	19,363
Servicing-related expenses	2,396	12,287	27,740	48,741
Merger-related expenses	—	—	—	17,756
Other	8,712	8,307	29,072	31,173
Total non-interest expense	\$ 152,987	\$ 165,741	\$ 452,363	\$ 553,493

Non-interest expense for the three months ended September 30, 2021 decreased \$12.8 million compared to the same period in 2020. The decrease was primarily due to decreases in communications and technology expense and servicing-related expenses, partially offset by an increase in salaries and employee benefits. The decrease in servicing-related expenses resulted from the 2021 sale of our MSR portfolio and transition of the MCA program to a third-party. Communication and technology expenses for the three months ended September 30, 2021 included a \$12.0 million write-off of certain software assets, as is discussed above, compared to \$15.4 million included in the same period of 2020.

Non-interest expense for the nine months ended September 30, 2021 decreased \$101.1 million compared to the same period in 2020. The decrease was primarily due to decreases in marketing expense, legal and professional expense, communications and technology expense, servicing-related expenses and merger-related expenses.

Analysis of Financial Condition

Loans Held for Investment

The following table summarizes our loans held for investment on a gross basis by portfolio segment:

(in thousands)	September 30, 2021	December 31, 2020
Commercial	\$ 9,377,274	\$ 8,861,580
Energy	697,888	766,217
Mortgage finance	8,528,313	9,079,409
Real estate	5,212,364	5,794,624
Gross loans held for investment	\$ 23,815,839	\$ 24,501,830
Deferred income (net of direct origination costs)	(66,122)	(70,970)
Allowance for credit losses on loans	(221,957)	(254,615)
Total loans held for investment, net	\$ 23,527,760	\$ 24,176,245

Total gross loans held for investment were \$23.8 billion at September 30, 2021, a decline of \$686.0 million from December 31, 2020 due to declines in energy, mortgage finance and real estate loans, offset by an increase in commercial loans. The decline in the energy portfolio is consistent with our strategy of planned reductions in this portfolio as it has experienced higher historic losses. Mortgage finance loans relate to our mortgage warehouse lending operations in which we purchase mortgage loan ownership interests that are typically sold within 10 to 20 days. Volumes fluctuate based on the level of market demand for the product and the number of days between purchase and sale of the loans, which can be affected by changes in overall market interest rates, and tend to peak at the end of each month. Despite the decline in the first nine months of 2021, balances in this portfolio remain elevated related to increases in volumes driven by continued lower long-term interest rates.

We originate a substantial majority of all loans held for investment. We also participate in syndicated loan relationships, both as a participant and as an agent. As of September 30, 2021, we had \$2.3 billion in syndicated loans, \$628.3 million of which we administer as agent. All syndicated loans, whether we act as agent or participant, are underwritten to the same standards as all other loans we originate. As of September 30, 2021, \$11.5 million of our syndicated loans were on non-accrual.

Portfolio Geographic and Industry Concentrations

Although more than 50% of our total loan exposure is outside of Texas and more than 50% of our deposits are sourced outside of Texas, our Texas concentration remains significant. As of September 30, 2021, a majority of our loans held for investment, excluding mortgage finance loans and other national lines of business, were to businesses with headquarters or operations in

Texas. This geographic concentration subjects the loan portfolio to the general economic conditions within this state. The risks created by this concentration have been considered by management in the determination of the appropriateness of the allowance for credit losses.

Non-performing Assets

Non-performing assets include non-accrual loans and leases and repossessed assets. The table below summarizes our non-performing assets by type and by type of property securing the credit:

<i>(in thousands)</i>	September 30, 2021	December 31, 2020	September 30, 2020
Non-accrual loans(1)			
Commercial			
Assets of the borrowers	\$ 13,849	\$ 18,776	\$ 35,829
Inventory	8,990	3,547	15,266
Other	4,235	9,773	11,416
Total commercial	27,074	32,096	62,511
Energy			
Oil and gas properties	40,040	51,724	73,811
Total energy	40,040	51,724	73,811
Real estate			
Assets of the borrowers	13,929	14,496	14,663
Commercial property	4,854	13,569	5,437
Hotel/motel	—	4,619	—
Single family residences	1,635	218	218
Other	—	5,267	5,306
Total real estate	20,418	38,169	25,624
Total non-performing assets	\$ 87,532	\$ 121,989	\$ 161,946
Loans held for investment past due 90 days and accruing(2)	3,405	12,541	15,896
Loans held for sale non-accrual(3)	—	6,966	—
Loans held for sale past due 90 days and accruing(4)	3,808	16,667	15,631

- (1) As of September 30, 2021, December 31, 2020 and September 30, 2020, non-accrual loans included \$23.7 million, \$45.4 million and \$47.7 million, respectively, in loans that met the criteria for restructured.
- (2) At September 30, 2021, December 31, 2020 and September 30, 2020, loans past due 90 days and still accruing includes premium finance loans of \$2.3 million, \$6.4 million and \$11.9 million, respectively.
- (3) Includes one non-accrual loan previously reported in loans held for investment that was transferred to loans held for sale as of December 31, 2020 and subsequently sold at carrying value.
- (4) Includes loans guaranteed by U.S. government agencies that were repurchased out of Ginnie Mae securities. Loans are recorded as loans held for sale and carried at fair value on the balance sheet. Interest on these past due loans accrues at the debenture rate guaranteed by the U.S. government. Balances as of December 31, 2020 and September 30, 2020 also include loans that, pursuant to Ginnie Mae servicing guidelines, we have the unilateral right, but not the obligation, to repurchase if defined delinquent loan criteria are met and therefore must record as loans held for sale on our balance sheet regardless of whether the repurchase option has been exercised.

Total non-performing assets at September 30, 2021 decreased \$34.5 million from December 31, 2020 and decreased \$74.4 million compared to September 30, 2020. The decrease from December 31, 2020 was primarily due to declines in energy and real estate non-accrual loans, and the decrease from September 30, 2020 was primarily due to declines in commercial and energy non-accrual loans.

Potential problem loans consist of loans that are performing in accordance with contractual terms, but for which we have concerns about the borrower's ability to comply with repayment terms because of the borrower's potential financial difficulties. We monitor these loans closely and review their performance on a regular basis. At September 30, 2021, we had \$68.0 million in loans of this type, compared to \$193.2 million at December 31, 2020 and \$129.5 million at September 30, 2020. The decline in potential problem loans is consistent with the continued economic recovery from the impacts of the COVID-19 pandemic.

Summary of Credit Loss Experience

The provision for credit losses, which includes a provision for losses on unfunded commitments, is a charge to earnings to maintain the allowance for credit losses at a level consistent with management's assessment of expected losses in the loan portfolio at the balance sheet date. We recorded a \$20.0 million negative provision for credit losses for the nine months ended September 30, 2021, compared to a provision of \$226.0 million in the same period of 2020. The year-over-year decrease resulted primarily from decreases in net charge-offs and non-accrual loans, as well as improvement in the economic outlook as the economy continues to recover from the impacts of the COVID-19 pandemic. We recorded \$11.9 million in net charge-offs

during the nine months ended September 30, 2021, compared to \$133.4 million during the same period of 2020. Criticized loans totaled \$728.9 million at September 30, 2021, compared to \$918.4 million at December 31, 2020 and \$1.1 billion at September 30, 2020.

The table below presents a summary of our loan loss experience:

<i>(in thousands except percentage and multiple data)</i>	Nine months ended September 30, 2021	Year ended December 31, 2020	Nine months ended September 30, 2020
Allowance for credit losses on loans:			
Beginning balance	\$ 254,615	\$ 195,047	\$ 195,047
Impact of CECL adoption	—	8,585	8,585
Loans charged-off:			
Commercial	8,211	73,360	35,376
Energy	6,418	133,522	100,239
Real estate	1,192	180	—
Total charge-offs	15,821	207,062	135,615
Recoveries:			
Commercial	2,462	1,277	883
Energy	1,366	6,999	1,303
Real estate	112	—	—
Total recoveries	3,940	8,276	2,186
Net charge-offs	11,881	198,786	133,429
Provision for credit losses on loans	(20,777)	249,769	219,962
Ending balance	\$ 221,957	\$ 254,615	\$ 290,165
Allowance for off-balance sheet credit losses:			
Beginning balance	\$ 17,434	8,640	\$ 8,640
Impact of CECL adoption	—	563	563
Provision for off-balance sheet credit losses	777	8,231	6,038
Ending balance	\$ 18,211	\$ 17,434	\$ 15,241
Total allowance for credit losses	\$ 240,168	\$ 272,049	\$ 305,406
Total provision for credit losses	\$ (20,000)	\$ 258,000	\$ 226,000
Allowance for credit losses on loans to LHI	0.93 %	1.04 %	1.15 %
Net charge-offs to average LHI	0.07 %	0.80 %	0.72 %
Total provision for credit losses to average LHI	(0.12) %	1.03 %	1.21 %
Recoveries to total charge-offs	24.91 %	4.00 %	1.61 %
Allowance for off-balance sheet credit losses to off-balance sheet credit commitments	0.21 %	0.20 %	0.18 %
Total allowance for credit losses to LHI	1.01 %	1.11 %	1.21 %
Allowance for credit losses on loans as a multiple of non-performing loans	2.5 x	2.1 x	1.8 x

The allowance for credit losses, including the allowance for losses on unfunded commitments reported on the consolidated balance sheets in other liabilities, totaled \$240.2 million at September 30, 2021, \$272.0 million at December 31, 2020 and \$305.4 million at September 30, 2020. The total allowance for credit losses as a percentage of loans held for investment was 1.01% at September 30, 2021, compared to 1.11% at December 31, 2020 and 1.21% at September 30, 2020. The total allowance for credit losses as a percentage of loans held for investment, excluding mortgage finance, was 1.58% at September 30, 2021, compared to 1.77% at December 31, 2020 and 1.93% at September 30, 2020. The decrease in the total allowance as a percentage of loans held for investment at September 30, 2021, compared to September 30, 2020, is due primarily to a decrease in the allowance for credit losses, resulting from reserve releases during the first nine months of 2021 driven by a decrease in net charge-offs and improvement in the economic outlook as the economy continues to recover from the impacts of the COVID-19 pandemic.

Loans Held for Sale

Through the MCA program we commit to purchase residential mortgage loans from independent correspondent lenders and deliver those loans into the secondary market via whole loan sales to independent third parties or in securitization transactions to Ginnie Mae and Government Sponsored Enterprises (“GSEs”) such as Fannie Mae and Freddie Mac. On April 20, 2021, we entered into an agreement to sell our portfolio of MSRs and to transition the MCA program to a third-party. The sale was completed on June 1, 2021 and the transfer of servicing on the underlying mortgage loans was completed on August 1, 2021. Transition activities began immediately following the execution of the agreement and are significantly complete as of September 30, 2021. On October 1, 2021, we completed the sale of the remaining MSRs to the same third-party. For additional information on these sales and the winding down of this line of business, see Note 5 - Certain Transfers of Financial Assets in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Liquidity and Capital Resources

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objectives in managing our liquidity are to maintain our ability to meet loan commitments, repurchase investment securities and repay deposits and other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies, formulated and monitored by our senior management and our Asset and Liability Management Committee (“ALCO”), which take into account the demonstrated marketability of our assets, the sources and stability of our funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. Our principal source of funding is customer deposits, supplemented by short-term and long-term borrowings, primarily from federal funds purchased and Federal Home Loan Bank (“FHLB”) borrowings, which are generally used to fund mortgage finance assets. We also rely on the availability of the mortgage secondary market provided by Ginnie Mae and the GSEs to support the liquidity of our mortgage finance assets.

Throughout 2020 we significantly increased our liquidity assets to ensure that we had the balance sheet strength to serve our clients during the COVID-19 pandemic. Through the first nine months of 2021 these balances have remained elevated, although they are beginning to run off as we have purchased investment securities and proactively exited certain high-cost indexed deposit products. The following table summarizes the composition of liquidity assets:

<i>(in thousands except percentage data)</i>	September 30, 2021	December 31, 2020	September 30, 2020
Federal funds sold and securities purchased under resale agreements	\$ —	\$ —	\$ —
Interest-bearing deposits	8,317,926	9,032,807	10,461,544
Total liquidity assets	\$ 8,317,926	\$ 9,032,807	\$ 10,461,544
Total liquidity assets as a percent of:			
Total loans held for investment	35.0 %	37.0 %	42.1 %
Total earning assets	23.4 %	24.6 %	28.0 %
Total deposits	27.9 %	29.1 %	32.7 %

Our liquidity needs to support growth in loans held for investment have been fulfilled primarily through growth in our core customer deposits. Our goal is to obtain as much of our funding for loans held for investment and other earning assets as possible from deposits of these core customers. These deposits are generated principally through development of long-term customer relationships, with a significant focus on treasury management products. In addition to deposits from our core customers, we also have access to deposits through brokered customer relationships.

We also have access to incremental deposits through brokered retail certificates of deposit, or CDs. These traditional brokered deposits are generally of short maturities and are used to fund temporary differences in the growth in loan balances, including growth in loans held for sale or other specific categories of loans as compared to customer deposits. The following table summarizes our period-end and average core customer deposits, relationship brokered deposits and traditional brokered deposits:

<i>(in thousands)</i>	September 30, 2021	December 31, 2020	September 30, 2020
Deposits from core customers	\$ 27,339,071	\$ 27,581,532	\$ 27,339,283
Deposits from core customers as a percent of total deposits	91.7 %	89.0 %	85.5 %
Relationship brokered deposits	\$ 1,488,066	\$ 1,771,883	\$ 2,295,530
Relationship brokered deposits as a percent of average total deposits	5.0 %	5.7 %	7.2 %
Traditional brokered deposits	\$ 986,531	\$ 1,643,174	\$ 2,324,674
Traditional brokered deposits as a percent of total deposits	3.3 %	5.3 %	7.3 %
Average deposits from core customers(1)	\$ 28,930,264	\$ 26,537,612	\$ 25,580,278
Average deposits from core customers as a percent of average total deposits	90.8 %	86.0 %	84.7 %
Average relationship brokered deposits(1)	\$ 1,516,026	\$ 2,099,652	\$ 2,078,708
Average relationship brokered deposits as a percent of average total deposits	4.8 %	6.8 %	6.9 %
Average traditional brokered deposits(1)	\$ 1,393,231	\$ 2,235,359	\$ 2,534,258
Average traditional brokered deposits as a percent of average total deposits	4.4 %	7.2 %	8.4 %

(1) Annual averages presented for December 31, 2020.

We have access to sources of traditional brokered deposits that we estimate to be \$7.5 billion. Based on our internal guidelines, we have currently chosen to limit our use of these sources to a lesser amount.

We have short-term borrowing sources available to supplement deposits and meet our funding needs. Such borrowings are generally used to fund our mortgage finance loans, due to their liquidity, short duration and interest spreads available. These borrowing sources include federal funds purchased from our downstream correspondent bank relationships (which consist of banks that are smaller than our Bank) and from our upstream correspondent bank relationships (which consist of banks that are larger than our Bank), customer repurchase agreements and advances from the FHLB and the Federal Reserve. The following table summarizes our short-term and other borrowings:

<i>(in thousands)</i>	September 30, 2021
Federal funds purchased	\$ —
Repurchase agreements	3,470
FHLB borrowings	2,200,000
Line of credit	—
Total short-term borrowings	\$ 2,203,470
Maximum short-term borrowings outstanding at any month-end during 2021	\$ 2,907,202

The following table summarizes our other borrowing capacities net of balances outstanding. As of September 30, 2021, all are scheduled to mature within one year.

<i>(in thousands)</i>	September 30, 2021
FHLB borrowing capacity relating to loans	\$ 6,168,920
FHLB borrowing capacity relating to securities	3,421,807
Total FHLB borrowing capacity(1)	\$ 9,590,727
Unused federal funds lines available from commercial banks	\$ 1,235,000
Unused Federal Reserve borrowings capacity	\$ 2,271,220
Unused revolving line of credit(2)	\$ 130,000

(1) FHLB borrowings are collateralized by a blanket floating lien on certain real estate secured loans, mortgage finance assets and also certain pledged securities.

(2) Unsecured revolving, non-amortizing line of credit with maturity date of December 14, 2021. Proceeds may be used for general corporate purposes, including funding regulatory capital infusions into the Bank. The loan agreement contains customary financial covenants and restrictions. No borrowings were made against this line of credit during the nine months ended September 30, 2021.

Periodically, based on market conditions and other factors, and subject to compliance with applicable laws and regulations and the terms of our existing indebtedness, we or the Bank may repay, repurchase, exchange or redeem outstanding indebtedness, or otherwise enter into transactions regarding our debt or capital structure. For example, we and the Bank periodically evaluate

and may engage in liability management transactions, including repurchases or redemptions of outstanding subordinated notes, which may be funded by the issuance of, or exchanges of, newly issued unsecured borrowings, as we seek to actively manage our debt maturity profile and interest cost.

For additional information regarding our borrowings and our capital and stockholders' equity, see Note 6 - Long-Term Debt, Note 8 - Regulatory Restrictions and Note 12 - Material Transactions Affecting Stockholders' Equity, respectively, in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Commitments and Contractual Obligations

The following table presents, as of September 30, 2021, significant fixed and determinable contractual obligations to third parties by payment date. Amounts in the table do not include accrued or accruing interest.

<i>(in thousands)</i>	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Deposits without a stated maturity	\$ 28,382,890	\$ —	\$ —	\$ —	\$ 28,382,890
Time deposits	1,273,741	153,804	3,228	5	1,430,778
Federal funds purchased and customer repurchase agreements	3,470	—	—	—	3,470
FHLB borrowings	2,200,000	—	—	—	2,200,000
Operating lease obligations	17,404	32,930	12,435	22,159	84,928
Long-term debt	—	269,985	173,870	484,207	928,062
Total contractual obligations	\$ 31,877,505	\$ 456,719	\$ 189,533	\$ 506,371	\$ 33,030,128

Off-Balance Sheet Arrangements

We enter into commitments to extend credit and standby letters of credit in the ordinary course of business, details of which are described in Note 1 - Operations and Summary of Significant Accounting Policies in our 2020 Form 10-K. For additional information, see Note 7 - Financial Instruments with Off-Balance Sheet Risk in the accompanying notes to the consolidated financial statements included elsewhere in this report.

Critical Accounting Policies

SEC guidance requires disclosure of “critical accounting policies.” The SEC defines “critical accounting policies” as those that are most important to the presentation of a company’s financial condition and results, and require management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

We follow financial accounting and reporting policies that are in accordance with accounting principles generally accepted in the United States (“GAAP”). Certain significant policies are summarized in Note 1 - Operations and Summary of Significant Accounting Policies in the notes to the consolidated financial statements included elsewhere in this report and in our 2020 Form 10-K. Not all significant accounting policies require management to make difficult, subjective or complex judgments. However, the policy noted below could be deemed to meet the SEC’s definition of a critical accounting policy.

Allowance for Credit Losses

Management considers the policies related to the allowance for credit losses as the most critical to the financial statement presentation. The total allowance for credit losses includes activity related to allowances calculated in accordance with Accounting Standards Codification (“ASC”) 326, *Credit Losses*. The allowance for credit losses is established through a provision for credit losses charged to current earnings. The amount maintained in the allowance reflects management’s continuing evaluation of the credit losses expected to be recognized over the life of the loans in our portfolio. The allowance for credit losses on loans is a valuation account that is deducted from the loans’ amortized cost basis to present the net amount expected to be collected on the loans. For purposes of determining the allowance for credit losses, the loan portfolio is segregated by product types in order to recognize differing risk profiles among categories, and then further segregated by credit grades. Loans that do not share risk characteristics are evaluated on an individual basis and are not included in the collective evaluation. Management estimates the allowance balance using relevant available information from internal and external sources relating to past events, current conditions and reasonable and supportable forecasts. Adjustments to historical loss information are made to incorporate our reasonable and supportable forecast of future losses at the portfolio segment level, as well as any necessary qualitative adjustments using a Portfolio Level Qualitative Factor (“PLQF”) and/or a Portfolio Segment Level Qualitative Factor (“SLQF”). The PLQF and SLQF are utilized to address factors that are not present in historical loss rates and are otherwise unaccounted for in the quantitative process. A reserve is recorded upon origination or purchase of a loan. See “*Summary of Credit Loss Experience*” above and Note 4 – Loans Held for Investment and Allowance for Credit

Losses on Loans in the accompanying notes to the consolidated financial statements included elsewhere in this report for further discussion of the risk factors considered by management in establishing the allowance for credit losses.

Impact of Inflation and Changing Prices

The preparation of financial statements in conformity with GAAP requires management to measure the company's financial position and operating results primarily in terms of historic dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on our operations is reflected in increased operating expenses. Management considers changes in interest rates to impact our financial condition and results of operations to a far greater degree than changes in prices due to inflation. Although interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. We manage our interest rate risk in several ways. Refer to "Interest Rate Risk Management" in Item 3 for further discussion. There can be no assurance that we will not be materially adversely affected by future changes in interest rates, as interest rates are highly sensitive to many factors that are beyond our control.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market risk is a broad term for the risk of economic loss due to adverse changes in the fair value of a financial instrument. These changes may be the result of various factors, including interest rates, foreign exchange rates, commodity prices, or equity prices. Additionally, the financial instruments subject to market risk can be classified either as held for trading purposes or held for other than trading.

We are subject to market risk primarily through the effect of changes in interest rates on our portfolio of assets held for purposes other than trading. Additionally, we have some market risk relative to commodity prices through our energy lending activities. Declines and volatility in commodity prices negatively impacted our energy clients' ability to perform on their loan obligations in recent years, and further uncertainty and volatility could have a negative impact on our customers and our loan portfolio in future periods. Foreign exchange rates, commodity prices (other than energy) and equity prices are not expected to pose significant market risk to us.

The responsibility for managing market risk rests with the ALCO, which operates under policy guidelines established by our board of directors. The acceptable negative variation in net interest revenue due to a 100 basis point increase or decrease in interest rates is generally limited by these guidelines to plus or minus 10-12%. These guidelines establish maximum levels for short-term borrowings, short-term assets and public and brokered deposits and minimum levels for liquidity, among other things. Oversight of our compliance with these guidelines is the ongoing responsibility of the ALCO, with exceptions reported to the Executive Risk Committee, and to our board of directors if necessary, on a quarterly basis. Additionally, the Credit Policy Committee ("CPC") specifically manages risk relative to commodity price market risks. The CPC establishes maximum portfolio concentration levels for energy loans as well as maximum advance rates for energy collateral.

Interest Rate Risk Management

Our interest rate sensitivity is illustrated in the following table. The table reflects rate-sensitive positions as of September 30, 2021, and is not necessarily indicative of positions on other dates. The balances of interest rate sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are aggregated to show the interest rate sensitivity gap. The mismatch between repricings or maturities within a time period is commonly referred to as the "gap" for that period. A positive gap (asset sensitive), where interest rate-sensitive assets exceed interest rate sensitive liabilities, generally will result in the net interest margin increasing in a rising rate environment and decreasing in a falling rate environment. A negative gap (liability sensitive) will generally have the opposite results on the net interest margin. To reflect anticipated prepayments, certain asset and liability categories are shown in the table using estimated cash flows rather than contractual cash flows. The Company employs interest rate floors in certain variable rate loans to enhance the yield on those loans at times when market interest rates are extraordinarily low. The degree of asset sensitivity, spreads on loans and net interest margin may be reduced until rates increase by an amount sufficient to eliminate the effects of floors. The adverse effect of floors as market rates increase may also be offset by the positive gap, the extent to which rates on deposits and other funding sources lag increasing market rates for loans and changes in composition of funding.

Interest Rate Sensitivity Gap Analysis
September 30, 2021

<i>(in thousands)</i>	0-3 mo Balance	4-12 mo Balance	1-3 yr Balance	3+ yr Balance	Total Balance
Assets:					
Interest-bearing deposits in other banks, federal funds sold and securities purchased under resale agreements	\$ 8,535,051	\$ —	\$ —	\$ —	\$ 8,535,051
Investment securities(1)	54,089	662	43,990	3,565,133	3,663,874
Total variable loans	20,574,506	148,803	20,423	271,404	21,015,136
Total fixed loans	187,476	1,503,549	187,382	931,956	2,810,363
Total loans(2)	20,761,982	1,652,352	207,805	1,203,360	23,825,499
Total interest sensitive assets	\$ 29,351,122	\$ 1,653,014	\$ 251,795	\$ 4,768,493	\$ 36,024,424
Liabilities:					
Interest-bearing customer deposits	\$ 13,412,428	\$ —	\$ —	\$ —	\$ 13,412,428
CDs & IRAs	138,248	269,561	33,205	3,233	444,247
Traditional brokered deposits	142,178	723,754	120,599	—	986,531
Total interest-bearing deposits	13,692,854	993,315	153,804	3,233	14,843,206
Repurchase agreements, federal funds purchased, FHLB borrowings	2,203,470	—	—	—	2,203,470
Long-term debt	269,985	—	—	658,077	928,062
Total borrowings	2,473,455	—	—	658,077	3,131,532
Total interest sensitive liabilities	\$ 16,166,309	\$ 993,315	\$ 153,804	\$ 661,310	\$ 17,974,738
GAP	\$ 13,184,813	\$ 659,699	\$ 97,991	\$ 4,107,183	\$ —
Cumulative GAP	\$ 13,184,813	\$ 13,844,512	\$ 13,942,503	\$ 18,049,686	\$ 18,049,686
					14,970,462
Demand deposits					14,970,462
Stockholders' equity					3,147,752
Total					\$ 18,118,214

(1) Investment securities based on fair market value.

(2) Total loans includes loans held for investments, stated at gross, and loans held for sale.

While a gap interest table is useful in analyzing interest rate sensitivity, an interest rate sensitivity simulation provides a better illustration of the sensitivity of earnings to changes in interest rates. Earnings are also affected by the effects of changing interest rates on the value of funding derived from demand deposits and stockholders' equity. We perform a sensitivity analysis to identify interest rate risk exposure on net interest income. We quantify and measure interest rate risk exposure using a model to dynamically simulate the effect of changes in net interest income relative to changes in interest rates over the next twelve months based on three interest rate scenarios. These are a static rate scenario and two "shock test" scenarios.

These scenarios are based on interest rates as of the last day of a reporting period published by independent sources and incorporate relevant spreads of instruments that are actively traded in the open market. The Federal Reserve's federal funds target affects short-term borrowing; the prime lending rate and LIBOR are the basis for most of our variable-rate loan pricing. The 10-year treasury rate is also monitored because of its effect on prepayment speeds for mortgage-backed securities and MSRs. These are our primary interest rate exposures. We are currently not using derivatives to manage our interest rate exposure, except for MSRs, although we may do so in the future if that appears advisable.

For modeling purposes, the "shock test" scenarios as of September 30, 2021 and 2020 assume immediate, sustained 100 and 200 basis point increases in interest rates. As short-term rates declined during 2020 and remain low through the first nine months of 2021, we do not believe that analysis of an assumed decrease in interest rates would provide meaningful results. We will continue to evaluate these scenarios as interest rates change, until short-term rates rise above 3.0%, at which point we will resume evaluations of shock scenarios in which interest rates decrease.

Our interest rate risk exposure model incorporates assumptions regarding the level of interest rate on indeterminable maturity deposits (demand deposits, interest-bearing transaction accounts and savings accounts) for a given level of market rate change. In the current environment of decreasing short-term rates, deposit pricing can vary by product and customer. These assumptions have been developed through a combination of historical analysis and projection of future expected pricing behavior. Changes in prepayment behavior of mortgage-backed securities, residential and commercial mortgage loans in each rate environment are captured using industry estimates of prepayment speeds for various coupon segments of the portfolio. The impact of these changes is factored into the simulation model. This modeling indicated interest rate sensitivity as follows:

(in thousands)	Anticipated Impact Over the Next Twelve Months as Compared to Most Likely Scenario			
	September 30, 2021		September 30, 2020	
	100 bps Increase	200 bps Increase	100 bps Increase	200 bps Increase
Change in net interest income	\$ 42,678	\$ 104,513	\$ 52,308	\$ 121,512

The simulations used to manage market risk are based on numerous assumptions regarding the effect of changes in interest rates on the timing and extent of repricing characteristics, future cash flows and customer behavior. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions, customer behavior and management strategies, among other factors.

In 2017, the U.K. Financial Conduct Authority announced that it would no longer compel banks to submit rates for the calculation of LIBOR after 2021. The administrator of LIBOR has proposed to extend publication of the most commonly used U.S. Dollar LIBOR settings to June 30, 2023 and to cease publishing other LIBOR settings on December 31, 2021. The U.S. federal banking agencies issued guidance strongly encouraging banking organizations to cease using U.S. dollar LIBOR as a reference rate in new contracts as soon as practicable and in any event by December 31, 2021. We have significant exposure to financial instruments with attributes that are either directly or indirectly dependent on LIBOR to establish their interest rate and/or value, some of which mature after December 31, 2021. We have established a working group, consisting of key stakeholders from throughout the company, to monitor developments relating to LIBOR changes and to guide the Bank's response. This team is continuing to work to ensure that our technology systems are prepared for the transition, our loan documents that reference LIBOR-based rates have been appropriately amended to reference other methods of interest rate determinations and internal and external stakeholders are apprised of the transition. Based on our transition progress to date, we will be operationally ready to originate new alternative benchmark-based loans in the fourth quarter of 2021, during which time we will also cease originating LIBOR-based products. We will begin originating Bloomberg Short Term Yield Index based loans in December 2021, and we are prepared with other alternative benchmarks, as necessary, to support the transition from LIBOR. We will continue to evaluate the transition process and align our trajectory with regulatory guidelines regarding the cessation of LIBOR as well as monitor new developments for transitioning to alternative reference rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the supervision and participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based upon that evaluation, we have concluded that, as of the end of such period, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act and were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to the Company's management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(f) under the Exchange Act) during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to various claims and legal actions that may arise in the ordinary course of conducting its business. Management does not expect the disposition of any of these matters to have a material adverse impact on the Company's financial statements or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes in the risk factors previously disclosed in the December 31, 2020 Form 10-K.

ITEM 6. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Exchange Act*</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Exchange Act*</u>
32.1	<u>Section 1350 Certification of Chief Executive Officer**</u>
32.2	<u>Section 1350 Certification of Chief Financial Officer**</u>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEXAS CAPITAL BANCSHARES, INC.

Date: October 21, 2021

/s/ Julie L. Anderson

Julie L. Anderson

Chief Financial Officer

(Duly authorized officer and principal financial officer)

CERTIFICATION

I, Rob C. Holmes, certify that:

1. I have reviewed this report on Form 10-Q of Texas Capital Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures, (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 21, 2021

/s/ Rob C. Holmes

Rob C. Holmes

President and Chief Executive Officer

CERTIFICATION

I, Julie L. Anderson, certify that:

1. I have reviewed this report on Form 10-Q of Texas Capital Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures, (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 21, 2021

/S/ Julie L. Anderson

Julie L. Anderson

Chief Financial Officer

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Texas Capital Bancshares, Inc. (the “Company”) for the period ending September 30, 2021 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Rob C. Holmes, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Rob C. Holmes
Rob C. Holmes
President and Chief Executive Officer
September 21, 2021

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Texas Capital Bancshares, Inc. (the “Company”) for the period ending September 30, 2021 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Julie L. Anderson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report, fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ Julie L. Anderson

Julie L. Anderson

Chief Financial Officer

Date: October 21, 2021