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Texas Capital Bancshares, Inc.

Q1 2024 Earnings Conference Call

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CORPORATE PARTICIPANTS

Rob Holmes - *President, Chief Executive Officer*

Matt Scurlock - *Chief Financial Officer*

Jocelyn Kukulka - *Head of Investor Relations & Corporate Development*

Operator

Welcome to the Texas Capital Bancshares, Inc. Q1 Conference Call. (Operator Instructions) I will now hand you over to your host, Jocelyn Kukulka, to begin. Please go ahead.

Jocelyn Kukulka

Good morning. Thank you for joining us for TCBI's first quarter 2024 earnings conference call. I'm Jocelyn Kukulka, Head of Investor Relations. Before we begin, please be aware this call will include forward-looking statements that are based on our current expectations of future results or events.

Forward-looking statements are subject to both known and unknown risks and uncertainties that could cause actual results to differ materially from these statements. Our forward-looking statements are as of the date of this call and we do not assume any obligation to update or revise them.

Statements made on this call should be considered together with the cautionary statements and other information contained in today's earnings release and our most recent annual report on Form 10-K and subsequent filings with the SEC.

We will refer to slides during today's presentation, which can be found along with the press release in the Investor Relations section of our website at [texascapitalbank.com](https://www.texascapitalbank.com).

Our speakers for the call today are Rob Holmes, President and CEO; and Matt Scurlock, CFO. At the conclusion of our prepared remarks, our operator will open up a Q&A session. I'll now turn the call over to Rob for opening remarks.

Rob Holmes

Thank you for joining us today. Client adoption trends accelerated again this quarter evidencing our differentiated market position as the preferred Texas-based platform, providing the widest possible range of products and services on parity with the largest money center banks.

Our industry-leading liquidity and capital have proven to be a competitive advantage through market and rate cycles. CET1 of 12.4% ranks third amongst the largest banks of the country. Tangible common equity to tangible assets of 9.8% ranks first amongst the largest banks in the country, and liquid assets of 27% allows for a consistent and proactive market-facing posture as we are uniquely capable of supporting the diverse and broad needs of our clients in what continues to be a dynamic and challenging operating environment for many industries.

Through cycle prioritization of our balance sheet is enabling us to increasingly pivot observe strategic success into financial outcomes necessary to deliver investor value creation through higher quality earnings streams associated with a distinctive set of businesses.

Fee income from our areas of focus increased 62% linked quarter and 20% year-over-year with treasury, wealth and investment banking, all delivering growth consistent with expectations. Noninterest income comprised over 16% of total revenue as we are now sustainably delivering fee income as a percentage of total revenue within our target range for full year 2025. The evolution of our Treasury Solutions platform is one of the most significant and important improvements that we have delivered for our clients.

Our now best-in-class payments offering allows us to successfully compete for, win, and serve as the primary operating relationship for the best clients in our markets. The volumes flowing through our payment systems have increased significantly in the last several years contributing to a record quarter and treasury product fees of \$8.7 million, a 14% improvement in gross payment revenues year-over-year. Treasury business awarded in prior quarters continues to ramp at a pace that exceeds industry norms. New business year-to-date is tracking ahead of internal targets and pipelines across treasury management products continue to increase.

Our firm now provides both payment products and services in parity with the major money center banks and a client onboarding process that is faster and more efficient.

The consistent improvement in the client journey is augmented by our high-touch, local service and decisioning. The full rebuild of the private wealth business that I have detailed on prior calls, is nearing completion resulting in a front, middle and back office structure built on leading technology geared towards superior client experience and significant scale. The pace of client acquisition is ahead of internal expectations as client count has now grown nearly 40% since we began the transformation in early 2021, and AUM has increased nearly 80% over the same time.

We remain optimistic about the future earnings potential of this business and in our ability to create further connectivity across all our services as the pace of client acquisition accelerates through the year.

Our investment bank continues to deliver improving contributions as we near the 2-year anniversary of its launch.

Investment banking and trading income more than doubled quarter-over-quarter to \$23.1 million, an increase of 23% year-over-year. All the largest product offerings, syndications, capital markets, capital solutions, M&A and sales and trading delivered quarter-over-quarter revenue growth. Sales and trading revenue doubled in the quarter, and the M&A team closed multiple transactions across different industries, sourced from different business segments.

We continue to hit milestones in the still maturing investment banking offering every quarter and are building a base of consistent and repeatable revenues that will be a meaningful contributor to future earnings.

After the unprecedented system-wide rate-driven deposit rotation in '23, noninterest-bearing deposit accounts outside of mortgage finance are stabilizing around 15% of total deposits and indeed grew slightly quarter-over-quarter. Enhanced capabilities in both our treasury solutions and private wealth offering, enable the firm to retain and grow client funds during 2023. With those trends continuing into this year.

As I mentioned last quarter, the firm has been and remains committed to banking the mortgage finance industry as it weathers the most challenging operating environment in the last 15 years.

Over the last two years, we have refocused client selection and improved the service model as we look not to expand share, but to instead deepen relationships through improved relevance with the right clients.

To achieve this, we have taken steps to better align the mortgage finance products and support teams throughout the firm to serve the holistic needs to these clients with a broad suite of products and services, custom designed to support them.

While the rate environment continues to disproportionately impact this client set, our commitment to effectively serving these clients will, over time, deliver risk-adjusted returns consistent with firm-wide objectives. The firm remains fully committed to improving financial performance and believe that our position of unprecedented strength is enabling us to serve the best clients in our markets.

Our focus this year is on scaling our value-accretive businesses to increase client adoption, improved client journeys and realized operational efficiencies.

Intentional decisions made with the support of analytical rigor to fortify the firm over the last several years have positioned us to deliver attractive through-cycle shareholder returns with both higher quality earnings and a lower cost of capital. Lastly, one of the two first calls I made when I agreed to join Texas Capital was to my longtime partner and good friend, Tim Storms.

We needed his talent, expertise, experience and character if we were going to endeavor to create a premier financial institution out of a bank, which desperately needed to address many facets after a very proud founding. His many contributions and dedication to our firm these past three years, greatly contributed to a new foundation and beginning at Texas Capital.

I would like to congratulate him on his career and wish both him and his family a great run in his retirement, something he has now failed at three times. Here is to staying retired Tim. Thank you. Now I'll turn it over to Matt to discuss the financial results.

Matt Scurlock

Thanks, Rob. Good morning. Starting on Slide 5. Total adjusted revenue increased \$10 million or 4% for the quarter to \$256 million as net interest income was flat and noninterest revenue resumed quarterly growth off a low experienced in the fourth quarter of last year. Quarterly total adjusted noninterest expense increased 6% linked quarter due to seasonality in first quarter payroll and compensation expenses and is down 1% relative to adjusted first quarter results last year.

Taken together, linked quarter adjusted PPNR remained relatively flat at \$64 million, which should represent the low point of the year. This quarter's provision expense of \$19 million resulted primarily from an expected increase in criticized loans, driven by identified and well communicated portions of the portfolio most impacted by the pace and magnitude of interest rate increases as well as partial charge-offs on identified problem credits.

Net income to Common was \$21.8 million, an increase of 38% linked quarter, while adjusted net income to Common was \$29.6 million, a decline of 5% linked quarter.

Our balance sheet metrics continue to be exceptionally strong with ending cash balances of 11% of total assets and cash and securities of 26%. Total deposits grew 7% during the quarter with predictable growth in mortgage finance deposits off seasonal lows as well as continued success adding and expanding client deposit relationships contributing to the nearly \$1.6 billion increase.

Ending period LHI balances increased by approximately \$488 million or 2% linked quarter, driven predominantly by growth in mortgage finance business of a seasonal trough and increases in commercial real estate loans as payoff rates remain suppressed. Total gross LHI, excluding mortgage finance, increased \$313 million during the quarter or nearly 2%.

We continue to see strong underlying momentum in the commercial business. Commercial loan balances on average increased \$225 million, while end-of-period balances were relatively flat.

New relationships onboarded in the first quarter exceeded expectations equaling nearly 40% of total new relationships added during the entirety of last year with the portion of new activity that includes deposit or treasury products turning sustainably over 90%. After repositioning approximately \$1 billion of funded credit over the last five quarters, our multiyear process of recycling capital into a client base that benefits from our broadening platform of available product solutions has slowed significantly.

We continue to expect the sustained pace of new client acquisition to result in modest balance sheet and loan growth this year. Commercial real estate period end balances increased \$322 million or 6% in the quarter as payoff rates continue trending near observed lows.

As discussed last quarter, given sustained low industry volumes, payoff rates will be the primary driver of near-term balance fluctuations in the category. The portfolio remains weighted to multifamily which comprises \$2.4 billion or 41% of outstanding balances, reflecting both our deep experience in the space and observed performance through credit and interest rate cycles. Average mortgage finance loans declined \$429 million or 11% in the quarter to \$3.5 billion as the seasonality associated with home buying hit annual low in Q1 and rising rates dampened earlier industry optimism for improved volumes.

After difficult fourth and first quarter for the mortgage space where seasonal weakness was exacerbated by persistent rate pressure, our expectation remains that the industry will be historically challenged in the near term. Ambiguity on the forward rate outlook is causing a dispersion and origination volume estimates from professional forecasters, with some reputable sources still calling for 15% to 20% increase in annual origination volume. Given ongoing rate volatility, we remain more cautious and are reducing our expectation for full year increases in average warehouse volumes from 15% to 10%.

Ending period deposit balances increased 7% quarter-over-quarter, as sustained focus on leveraging our cash management platform into deeper client relationships continues to drive outperformance relative to the industry.

When excluding predictable fluctuations in mortgage finance deposits and a now 10-plus year low in broker deposit balances, quarter-over-quarter growth of 4% reemphasizes our success in attracting quality funding associated with core offerings in a challenging environment.

As expected, period-end mortgage finance noninterest-bearing deposit balances increased to \$1.1 billion quarter-over-quarter as volumes begin to predictively rebuild over the course of the year off seasonal lows in December and January. Average mortgage finance deposits were 148% of average mortgage finance loans, higher than our previous guidance as the mortgages expected rate outlook did not materialize and the system-wide contraction in mortgage origination volume continues to weigh on clients' short-term credit needs.

We expect a ratio of average mortgage finance deposits to average mortgage finance loans to drift lower in the second quarter to approximately 130%.

Driven both by seasonal improvements in warehouse volumes and to select reductions and our highest cost deposit relationships where we're unable to earn additional business necessary to generate an appropriate return on capital.

In the first quarter of 2024, enhancements were made to our methodology for applying relationship pricing credits for our mortgage clients to both their mortgage finance and commercial loans based on each loan types' contribution to interest income. To conform to the current period presentation, certain prior period interest income amounts have been reclassified and related yields have been adjusted.

Attribution of interest credit should follow a similar distribution over the remainder of the year with approximately 60% associated with mortgage finance and 40% aligned to commercial loans to mortgage finance clients.

Ending period noninterest-bearing deposits, excluding mortgage finance, grew slightly to \$3.3 billion in the quarter marking the first time in six quarters that select clients shifting excess balances to interest-bearing deposits or to other cash management options on our platform did not result in a quarterly reduction.

Ending period noninterest-bearing deposits, excluding mortgage finance, are 14% of total deposits, and our expectation is that this percentage remains relatively stable in the near term. Broker deposits declined \$315 million during the quarter as growth in client-focused deposits consistent with our long-term strategy remains sufficient to satisfy desired near-term balance sheet demands.

Over the second quarter, \$329 million mature with an average rate of 5.3%, and we do anticipate replacing a portion of these deposits.

As expected, our modeled earnings at risk was consistent linked quarter as proactive measures taken over the last 18 months to achieve a more neutral position at this stage of the rate cycle have produced the intended outcome.

It's important to note these are measures of net interest income sensitivity and do not include inevitable rate-driven changes in loan volumes or fee-based income. Consistent with previously communicated intent to resume cash flow investments during 2024, we purchased nearly \$600 million in agency-backed securities during the quarter with an average coupon of 6%.

We do anticipate reinvesting \$60 million to \$80 million of quarterly cash flows over the duration of the year, which will improve securities yield while maintaining target rate positioning.

Net interest margin increased by 10 basis points this quarter and net interest income increased modestly to \$215 million. The impacts of balance sheet repositioning into higher earning assets associated with our long-term strategy, coupled with continued momentum Rob described in our fee-generating businesses should continue over the next few quarters as we look to resume year-over-year quarterly PPNR growth in the second half of the year.

Year-over-year quarterly adjusted noninterest expense declined \$1.6 million, a direct result of the systematic realignment of our expense base with strategic priorities, which is delivering efficiencies associated with a more scalable operating model.

Total adjusted noninterest expenses increased 6% linked quarter as Q1 salaries and benefits expense reflected increases of approximately \$10.7 million in seasonal payroll and compensation-related expenses that peak in the quarter.

The realization of structural efficiencies associated with our go-forward operating model are improving near-term financial performance, while also enabling continued specific investments to drive long-term capabilities as industry-wide asset quality and normalization continues, we continue our now multiyear posture of prudently building the reserve to both address known legacy concerns and in anticipation of an evitable credit impact of the elevated rate environment.

The total allowance for credit loss including off-balance sheet reserves increased \$8 million on a linked quarter basis to \$305 million, up \$21 million year-over-year. The total allowance for credit loss to total LHI remained at 1.46% quarter-over-quarter.

Criticized loans increased \$121 million or 16% in the quarter to \$860 million, 4.1% of total LHI as increases in both special mention and substandard of predominantly commercial real estate loans were only partially offset by payoffs and upgrades. The composition of criticized loans is weighted towards well structured commercial real estate loans supported by strong sponsors plus commercial clients with dependencies on consumer discretionary income.

As consistently noted on prior calls, commercial real estate credit migration is something we both expect and are prepared for through strict adherence to disciplined client selection and concentration management.

During the quarter, we recognized net charge-offs of \$10.8 million or 22% of average LHI, predominantly related to partial charge-offs on three relationships, two of which were originated prior to 2018.

The charge-offs are comprised of two commercial credits depending on consumer discretionary income and a previously charged down hospitality loan, which was unable to fully recover post the pandemic. Consistent with prior quarter's capital levels remain at or near the top of the industry and continue to be near all-time highs for Texas Capital. Total regulatory capital remains exceptionally strong relative to the

peer group and our internally assessed risk profile. CET1 finished the quarter at 12.38%, a 27 basis point decrease from prior quarter, and tangible common equity to tangible assets finished at 9.83%.

As we enter the second quarter, the outstanding debt associated with the 2021 credit linked note related to the mortgage warehouse loan portfolio, is expected to be fully repaid in June. Current quarter CET1 pro forma impact for this repayment is an approximate 40 basis point decline. With the seasonal increase in mortgage finance balances in the second and third quarter, we expect ending period ratios to move closer toward our published 2024 CET1 floor of 11%.

We continue to deploy the capital base in a disciplined and analytically rigorous manner focused on driving long-term shareholder value.

During the first quarter, we repurchased approximately 529,000 shares or 1.1% of shares outstanding at year-end 2023 for a total of \$32 million at a weighted average price below tangible book value per share. Subsequently, in April, we purchased an additional 341,000 shares for a total of \$20 million at a weighted average price of approximately 96% of prior month tangible book value per share.

Our guidance accounts for the market-based forward rate curve, which now assumes Fed funds of 5% exiting the year. Despite the material change in rate outlook, our guidance remains unchanged from our last earnings call in January.

For the full year, we anticipate mid-single-digit growth in revenue supported by continued execution across fee income areas of focus and the tapering of capital recycling efforts which should translate sustained momentum in new client acquisition to modest risk appropriate loan growth.

This is in part supported by a well-signaled intent to move towards 11% CET1 ratio which given our risk-weighted asset heavy commercial orientation should still result in sector-leading tangible common equity levels.

We expect multiyear investments in infrastructure, data, and process improvements to continue yielding expected operating and financial efficiencies which should enable targeted additional investment in talent and capabilities while limiting full year noninterest expense growth to low single digits.

We expect resumption of quarterly increases in year-over-year PPNR growth to begin in the second half of the year accelerating as we enter 2025.

Finally, we maintain our conservative outlook and reiterate our annual provision expense guidance at 50 basis points of LHI, excluding mortgage finance. Operator, we'd now like to open the call up for questions. Thank you.

Operator

(Operator Instructions) Our first question comes from Brett Rabatin from Hovde Group.

Brett Rabatin

Hey, good morning guys, I wanted to start with asset quality. And Matt, you noted the anticipated increase in criticized assets given interest rates and other topics. Can you maybe talk about the lumpiness of that \$121 million increase? Then does the recent term structure change with the higher end being higher, does that impact how you think about future criticized levels?

Matt Scurlock

Yes. Thanks, Brett Rabatin, for the question. So simply the risk outlook for us on credit hasn't changed at all. So portfolio migration was up a bit in the substandard this quarter, but it's entirely consistent with the expectations that we began communicating really in the middle of 2022 when the Fed began tighten in earnest. That's in part where we had a provision guide last year of 45 basis points of loans, excluding mortgage finance, and while we got it up to 50 basis points for this year.

Two-thirds of that increase in criticized is in the real estate special mention category which was driven by a few multifamily loans and then one office.

Our view would be, Brett, that the downgrades have and will likely continue to be driven by impact of higher rates on valuations, some increased expenses associated with labor and insurance and then some trending lower rental rates. So we, over time, do expect that the quality of the sponsor's projects and then what is ample of cash equity in these transactions will limit any realized loss given default, but would in no way be surprised by continued migration.

Brett Rabatin

Okay. That's helpful. Then just thinking about the funding costs from here, it would seem like you've kind of topped out here depending on the core funding mix and the mortgage banking or the mortgage warehouse deposit balances.

Can you guys maybe talk about -- and you talked about some of the repricing that you have? Would it be fair to assume that the cost of interest-bearing funds is -- has topped out here? And do you guys see levers absent rates to maybe improve the cost structure of deposits?

Matt Scurlock

Yes. So on interest-bearing, we noted on the last call that the September cost of interest-bearing was 4.55% and that December cost went to 4.62%. That we thought costs would generally drift higher at a similar rate up until the federal we acted on any sort of reduction in interest rates and Q1 behaved exactly

as anticipated. So the margin interest-bearing deposit costs were 4.69% so up 7 basis points from December to March.

(inaudible) we would expect a similar move in Q2, absent any changes in the rate outlook there's nothing that suggests to us that clients are less interested in earning an appropriate rate on their deposits than they were 90 days ago.

I would also just call out for the first time in quite some time, we did see stabilization in commercial noninterest bearing.

We actually had \$1 million of growth, \$3.4 billion average balances relative to ending of \$3.34 billion, which suggests that balances were really stable throughout the quarter, daily fluctuations were largely just a result of clients transacting again. So not ready to call a turning point on that, but the guidance does account for all of this new treasury business that we've won over the last few years beginning to gradually push noninterest-bearing deposits higher as we move into the back end of '24.

Brett Rabatin

Okay, that is great to see the stabilization. Thanks guys.

Matt Scurlock

You got it.

Operator

Our next question comes from Ben Gerlinger from Citi.

Benjamin Gerlinger

Just kind of curious, could you kind of stress test the guidance a little bit. I get that mortgages, let's call it a wild card or a question mark at this point. Let's say mortgage doesn't get any better than kind of what we're at right now. There's kind of no cut in area. Mortgage rates are still 7%.

I guess operationally, you would think people would be more apt to move just because they're not going to get a better rate.

But if mortgage kind of stays where we currently are, does -- given that it's a bigger component of your overall balance sheet relative to peers, but like would the total revenue still be in that mid-single digit, if the mortgage loan balances don't really inflect up here the seasonality change?

Matt Scurlock

So the mortgage balances will inflect up for seasonality, but we're not counting on reduction in the 10-year driving volumes associated with warehouse. So the guidance unchanged with now two rate cuts, essentially 1.5 today relative to the five almost seven rate cuts that were contemplated in the original guidance would suggest we can generate returns that are pretty resilient in a wide range of rate environments.

So if you have rates stay higher, we're essentially neutral on an NII up 100, down 100 and then have ample capital and liquidity to support continued use of our balance sheet and driving new client acquisition. So one of the things that we noted in the commentary is that -- in the first quarter, we added 40% of total relationships out over the last year. So we're onboarding an enormous amount of new commercial clients. And balance sheet committee volume is up 26% year-over-year and 46% linked quarter.

So -- if those trends continue, we'll be able to appropriately the term we used last quarter, relevel the balance sheet in support of clients consistent with our strategy, which enables you to drive pretty material NII improvement agnostic to rates.

If you do see rates come down, which we comment a bit on the mortgage finance, the reliability or lack thereof of professional forecasters, which are still calling for up to 20% increase in 1-4 family origination volume, they're about 70 basis points light in our view on actual 10-year and/or mortgage rates, which is why we're really only looking at about a 10% full year average increase in warehouse for the year. So much less of a driver of earnings performance in this rate environment than it was expected 90 days ago. And just maybe the last thing I'd mention on that. Like that's clearly the result of a very deliberate strategy, balance sheet repositioning and business model build over the last three years. The bank has 50% of total assets sitting in mortgage warehouse when Rob got here. So to now with that where you have half sitting in C&I and then the appropriate concentration levels around mortgage gives us confidence to deliver those returns.

Benjamin Gerlinger

That's great color. I appreciate it. Then coming following up on Brett's question about credit. I know you guys talked through this credit migration is what you guys were previously expecting and guiding towards -- if it really is following that path, where do you think based on what you guys have previously expecting, we would see special mention go? Like where would it kind of top out at in terms of a credit trend?

Because it seems like it's following your guys' plan. What is your plan or guidance really anticipated those marks going?

Matt Scurlock

Yes. I think it's difficult to call out a peak in special mention. I think that the macro backdrop, particularly around rates, I don't really see any indication that you would see it slowing down. I mean it was a bit faster this quarter, 16% relative to 10% than our average of the last 4 or 5 years.

But that was largely driven by just a smaller number of credits moving back to watch, not as much by an increase in credits moving from watch to special mention. We'd expect continued move up, which is why we have the 50 basis points provision guide for the year.

And to be candid, it's also why we managed a pretty specific concentration levels on commercial real estate. So we've got 30% of our total loan portfolio. That resides in commercial real estate.

I think that's probably peer-leading depending on the group that you look at and while we carry out a bunch of capital and liquidity. So we're as prepared as you possibly could be for the uncertain credit environment.

Operator

Our next question comes from Matt Olney from Stephens.

Matt Olney

I wanted to ask about loan yields ex mortgage finance. I think they increased about 12 bps during the quarter. A little surprised that we saw that given that the changes of the SOFR during the quarter. Any color on that change sequential?

Matt Scurlock

Yeah Matt. So we called out in the comments and it mentioned a bit, I think last quarter that over the last five quarters, we've cycled about \$1 billion of capital into higher returning relationships and you continue to -- we continue to see pretty advantageous spreads over index on newly originated credit. So over the last five quarters, I think the headline balance sheet and headline loan growth numbers have been perhaps a bit misleading in terms of just all the new business that we've been adding, and those trends really continued in the first quarter, which was supportive of the yield.

Matt Olney

Okay. I appreciate that. Then on the credit linked note that was mentioned in prepared remarks, remind us of the savings on that and the timing when we'll see the savings.

Matt Scurlock

Yes. You'll see about \$2.5 million of quarterly saves that will show up beginning in the third and fourth quarter. That's already embedded in our outlook. So the reduction in CET1 will be at the end of the second period, and then you'll have the pickup in NII that begins in the third quarter.

Matt Olney

Got it. Then on the securities repurchases during the quarter, you mentioned the 6% coupon. Any color on when those purchases were made? Then kind of what's the appetite for additional kind of consideration of higher security purchases?

Matt Scurlock

Yes. So we had about \$250 million to mature at the end of January that had a coupon around 1% which takes you back a bit as you think about how fast yields have moved higher. Then I'd say the average settlement date was it to late February. We definitely have appetite to reinvest cash flows based on what we see elsewhere on the balance sheet, and we would expect new securities to come on at similar yields.

Matt Olney

And just following up on it Matt, it sounds like that the cash flows you expect for the remainder of the year, I think you mentioned \$60 million to \$80 million per quarter. Is that the next few quarters, I would assume?

Matt Scurlock

Yes. You got it Matt.

Operator

Our next question comes from Wood Lay from KBW.

Wood Lay

Wanted to start on the investment banking trading fees. Last year, we saw a pretty nice ramp-up in the second and third quarter. Should we expect something similar in 2024? And can you just talk about how your pipelines are responding in the current macro environment?

Rob Holmes

Yes. I would just say Woody, that all five major components of the investment bank, I think Matt said in his comments, revenue increase quarter-over-quarter. So syndications, capital markets, capital solutions, M&A and sales and trading, all delivered revenue growth. I would say going into the second quarter and today the pipelines are much healthier and what I mean by that is more granular across the entirety of the platform as you have more bakers bringing out more product partners on a more regular basis and the client receptivity to the investment bank proving to be very, very strong.

So it's good to see the overall platform maturing, which is increasingly helping the health of the pipeline. So I feel good about it going into the second quarter. It's probably the healthiest pipeline we've had.

Wood Lay

That's good to hear. Then I wanted to shift over to multifamily real fast. I see that 55% of your portfolios in Texas, is that primarily in Dallas? Or is it pretty broad-based among all of the Texas markets?

Rob Holmes

I would say it's broad-based and also note that the loan-to-value is mid-50s as well. So and the sponsors and client selection are really great. So we feel really, really good about that.

Operator

(Operator Instructions) Our next question comes from Jon Arfstrom from RBC.

Jon Arfstrom

Matt, you alluded to the noninterest-bearing balances, excluding mortgage. It seems like the remixing is burning out and you alluded to the treasury wins, what's possible there over time in terms of non-mortgage, noninterest-bearing deposit growth?

Matt Scurlock

I think so it's going to be dependent on the rate environment. Jon, but the momentum, to Rob's point, in the treasury business is the strongest ever been. I mean year-to-date, new treasury clients are up 105% of internal expectations. So that we talked a lot in previous quarters about the lag from when you win the business, ramp the business and then it starts to show up either as a noninterest-bearing deposit or in fees and a big pickup this quarter in fees, 19% year-over-year growth is the result of all the business that we won last year. So it's just now ramping and showing up in that few line item. Rob will often say that that's a horizon that you're always chasing. I think at this point, we have sort of max resource allocation up against that we've tripled the number of frontline TS officers, a third of our tech project spend is on new products and services, in the cash management suite and then over 90% of transactions that come through the balance sheet are going to have a treasury or deposit relationship attached to it.

So said differently, nine out of every 10 times we're extending capital, you're going to have the operating deposits that come along with it. So I think just given our commercial orientation, we're driving as meaningful growth in that business is probably anyone that we know.

I mean the treasury product fees line item for the industry is growing about 4% GDP business, and we grew gross PxV by 14% this quarter. Rob, do you want to add to that?

Rob Holmes

I think you said it perfectly well. I do think it's evidence of other investments that we've made in the platform maturing.

I mean what one has to remember is -- we have a new payments platform, purchase card, merchant, lockbox and all of them are state-of-the-art as it relates to technology because they're all brand new. And the ease of use with our Initio onboarding and client journey has proven to be a big advantage of the market. I don't see the focus on treasury doing anything but improving, if that's possible.

We have -- it's a part of our culture now. Bankers understand treasury, they understand PxV. They understand the importance of the platform.

It's not treasury in a line of business on their own, trying to achieve certain goals for the bank. It's a holistic effort by the entirety of culture. I don't know of another sales and trading platform on Wall Street

that actually engages about treasury products. So we're really excited about the platform, the professionals in it, but also the adoption by the entirety of the bank and focus on it.

Jon Arfstrom

We're trying to do it around, but it's not easy. We're trying to do it. The -- on credit, you mentioned the pre-2018 loan book having two of the three issues. What's the significance of that? And maybe the size of pre-2018 or doesn't that matter? Just curious kind of why you've flagged it and what you meant by that?

Matt Scurlock

Yes. We've called out before this legacy loan portfolio that was on the books. When Rob got here that we're continuing to try to work down. It was \$200 million when Rob got here, it's \$60 million a day \$30 million of that resides in nonaccrual. So perhaps some different credit decisioning than the current management team would have pursued. So that's the rationale for calling it out. We're going to continue to work through some of those legacy credit items.

Jon Arfstrom

Then last one I have on Slide four for you, Rob. I'm sure you think about this a lot, but on the return targets. In your view, what needs to happen to get closer to those return targets, the ROA and the ROTCE targets? What needs to happen to get closer to those?

Rob Holmes

Just the scaling the maturation of the platform. There's a lot of embedded earnings power in the platform we talked about. The \$8.7 million in treasury fees is all-time record. We're winning business in treasury. We won \$1 million a year of fee business in treasury last week and beat 2 money center in doing so.

That's not in that number. Like Matt said, 90% of the loans that we commit to come with treasury business. All five components of the Investment Bank are growing. In the fourth quarter of this year, the private wealth platform modernization would have been fully implemented, and we feel great about that.

I think a number of clients and AUM have more than doubled since we started the journey so it's just a maturation of the investments that we put into the platform and the stability of the bankers and product partners on the platform doing but with the clients and pursuing their pipelines.

But we've got a -- you couple that with some efficiency opportunities that Matt talked about in the operating model, and we stand by the guidance and the goals.

Operator

We currently have no further questions. I will hand back over to Rob Holmes to conclude.

Rob Holmes

Thanks, everybody, for the interest in Texas Capital Bank, and have a great week.

Operator

This concludes today's call. You may now disconnect your lines.