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Texas Capital Bancshares, Inc.

Q3 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

Good morning, all and thank you all for attending the Texas Capital Bancshares third quarter 2024 Earnings Conference Call. (Operator Instructions)I would now like to pass the conference over to your host, Jocelyn Kukulka, Head of Investor Relations. Thank you. You may proceed, Jocelyn.

Jocelyn Kukulka

Good morning, and thank you for joining us for TCBI's Third 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, our most recent annual report on Form 10-K and subsequent filings with the SEC. We will refer to slides during today's presentation, which can be found along with the press release in the Investor Relations section of our website at texascapitalbank.com. Our speakers for the call today are Rob Holmes, President and CEO; and Matt Scurlock, CFO. At the conclusion of our prepared remarks, our operator will open up the call for Q&A.

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

Rob Holmes

Thank you for joining us today.

This quarter marks three years since the announcement of our strategic plan in September of 2021. Our collective and deliberate actions over the last several years, including those announced last month, continue to establish our Firm as worthy of serving the best clients in our markets, with superior product breadth and banker execution, increasingly resulting in high-quality financial outcomes we believed the model would ultimately be capable of producing.

On an adjusted basis, this quarter featured record performance across a variety of important financial metrics. Quarterly return on average assets of 1.00%, return on common equity of 10%, pre-provision net revenue of $115 million, fee income of $64.8 million, and earnings per share of $1.59 all reached record levels since the beginning of the transformation, while investment banking, trading income and tangible book value per share reached the highest levels in Firm history. With unquestioned market momentum, an increasingly complete and differentiated platform, and robust capital and liquidity, we are well-positioned to execute throughout 2025.

Sustained multi-year growth in our fee income areas of focus continued again this quarter, as Treasury Product Fees, Wealth Management Fees, and Investment Banking and Trading Income delivered $54 million in non-interest revenue, up 25% linked quarter, and 32% year over year. This is the second consecutive record quarter since the beginning of the transformation, as year-to-date adjusted total non-interest income is 19% of adjusted total revenue, firmly within our target range for fee income contribution for full year 2025.

This fee income realization is simply a market facing indicator of the increased frequency and quality of client solutions being delivered across our platform. Investment Banking and Trading Income increased 32% quarter over quarter to a record of $40.5 million led by Syndications, Capital Markets, and Sales & Trading. Our syndication business executed a record number of transactions in the quarter, placing us 8th in the middle market league tables nationwide, as our distinct capabilities enabled clients to access bank funding in what was still a tight market. We also continue to differentiate by facilitating client access to non-bank financing, with Capital Markets delivering records this quarter in both fees and transaction volumes. The investment banking platform, while still maturing in both product offerings and execution capabilities, is building a base of consistent and repeatable revenues that will be both a differentiator in the marketplace and a meaningful contributor to future earnings.

The Treasury Solutions platform, which provides both payment products and services in parity with the major money center banks, with a differentiated client journey, which is faster and more efficient, is increasingly realizing growth in stable and recurring revenue resulting from three years of significant investment. Client and product onboarding continues on pace with expectations, as year over year Treasury Product Fees increased 16% led by a 10% increase in gross payment revenues year to date. This is now 6 consecutive quarters of year over year growth exceeding three times that experienced by the industry.

The full rebuild of the Private Wealth business, which will be completed by year end, includes an entirely new operating platform, along with significantly enhanced products and services, and is providing early signs of increased client adoption with wealth related fees increasing 9% this quarter. The materially enhanced client journey should enable improved connectivity to the rest of our platform, allowing for accelerated client adoption moving into 2025 and significant future scale.

As discussed for multiple quarters, while our platform breadth is enabling new client acquisition at a pace consistent with internal expectations, with year-to-date new relationships onboarded now over 110% of new relationships for full year 2023, lower system-wide client demand for bank credit has limited immediate earning asset expansion.

We were, however, able to again leverage our disciplined capital allocation process this quarter to support continued buildout of our industry focused Corporate Banking platform by acquiring a portfolio of approximately $400 million in committed exposure to companies in the healthcare sector. Texas Capital has significant institutional knowledge of many of the companies in the portfolio, which importantly, are supported by sector-focused sponsors with notable track records of value creation. These clients will benefit from an extensive solutions-focused platform, with revenue cycle management, healthcare asset-based lending, and other sector-specific products integrated with differentiated cash management, commercial banking and investment banking capabilities.

The multi-quarter trend of clients increasingly leveraging our distinct cash management capabilities continued this quarter, with non-brokered interest-bearing deposits now up 24%, or $3.1 billion year-over-year. Importantly, non-interest-bearing deposits, excluding Mortgage Finance, increased 4% to $3.4

billion this quarter as our sustained focus on earning the right to become our clients' primary operating bank is having the anticipated balance sheet impact.

In addition to noted financial performance, we remain focused on our consistently stated objective of financial resilience, the Firm finished the quarter with Tangible Common Equity to Tangible Assets of 9.65%, ranked first amongst the largest banks in the country, a reserve ratio of 1.87%, excluding mortgage finance loans, which is top decile amongst our peer group, and liquid assets of 27%, above peer medians.

Our commitment to achieving improved financial performance is unwavering and our position of unprecedented strength is enabling us to serve clients in our markets who seek a financial partner to support them through all stages of their business or personal lifecycle. We will drive attractive, thru-cycle shareholder returns, with both higher quality earnings and a lower cost of capital, as we ramp high value businesses through increased client adoption, improved client journeys, and realized operational efficiencies – all objectives that we made significant headway on year to date with roadmaps to accelerate scale in 2025.

Finally, I want to acknowledge the dedication of our employees who execute this strategy every single day and are the unquestioned driving force behind the continued success of the Firm.

Now I'll turn it over to Matt for the financials results.

Matt Scurlock

Thanks, Rob, and good morning.

Starting on slide 5 - Total adjusted revenue increased $38 million, or 14% for the quarter to $305 million as a $23.5 million increase in net interest income was augmented by a $14.4 million, or 29% linked quarter increase in non-interest revenue. The $64.8 million of fee income delivered this quarter is the high-water mark since we began the transformation in January of 2021, and our YTD adjusted non-interest revenue of $157 million is more than double the amount delivered in full-year 2020 when normalizing warehouse related fees and adjusting for businesses we've sold or wound down.

Quarterly total adjusted non-interest expense increased 1% linked quarter as expected growth in occupancy, and communications & technology expense was partially offset by a reduction in salaries and benefits related costs.

Taken together, linked quarter adjusted PPNR increased 45% to $115 million. This marks the resumption of quarterly operating leverage against the comparable quarter in the prior year, achieved a quarter earlier than indicated during the July earnings call.

The modest reduction in this quarter's provision expense to $10 million resulted from slowing charge-offs, and moderate loan growth, partially offset by a sustained conservative posture related to our economic outlook. Year-to-date provision expense as a percentage of average LHI excluding mortgage finance is within our through-cycle range at 39 bps annualized.

Net income to common when including the realization of losses associated with the AFS bond portfolio repositioning and certain non-recurring items was negative $65.6 million, while adjusted net income to

common was $74.3 million, up $36.6 million or 97% linked quarter. The tax rate for the quarter decreased to 23.3% and we expect the full year tax rate to be around 34%.

Our balance sheet positioning remains exceptionally strong with ending period cash balances of 13% of total assets and cash and securities of 27%, both higher this quarter and in line with year-end targeted ratios. Ending period gross LHI balances increased by approximately $522 million, or 2% linked quarter, driven primarily by slightly higher than anticipated seasonal growth in the Mortgage Finance business and the acquisition of a C&I healthcare loan portfolio which closed at quarter end with funded balances of approximately $330 million.

Total deposits increased by $2 billion or 9% during the quarter, with gains in both commercial non-interest bearing and interest bearing accounts. This core client growth should support continued proactive reductions of our highest cost deposits where we have limited additional product touchpoints elsewhere on the platform, while also supporting a multi-quarter low loan to deposit ratio of 86%.

AOCI improved by $240mm or 65% linked quarter related to both the bond repositioning and the 80bps decline in 5-year Treasury rates during the period.

Total gross LHI excluding mortgage finance was relatively flat linked quarter, increasing a modest $71 million, as limited credit demand experienced over the last 12 months and now increasing commercial real estate payoffs suppress loan volumes across the industry.

Commercial loans grew $434 million this quarter, inclusive of the $330 million loan portfolio acquisition that Rob detailed, and is up $602 million, or 6% year-over-year. Our expectation that the sustained pace of new client acquisition would result in modest balance sheet and loan growth this year is occurring, although at a slower pace than contemplated in our original 2024 guidance.

Commercial real estate period end balances decreased $374 million, or 7% in the quarter, as payoff rates continue to be elevated and current and trailing 18-month origination limited given the market backdrop. $80 million of the decline resulted from payoffs in the office portfolio which now comprises just 2% of total loans. Overall, the real estate portfolio remains weighted to multifamily, which is $2.3 billion or 44% of outstanding balances, reflecting both our deep experience in the space and observed performance through credit and interest rate cycles.

Anticipated seasonal growth in Mortgage Finance was augmented by the reduction in 30-year mortgage rates experienced from early-August through mid- September, resulting in a linked quarter increase in average mortgage finance loans of $795 million, or 18%, to $5.2 billion. Given ongoing rate volatility, we remain cautious on the outlook, with now full-year expectations for a year over year increase in average warehouse volumes of 10% to $4.5 billion supported by mortgage rates near 6.40% during the fourth quarter.

Ending period deposit balances increased 9% quarter-over-quarter, and $1.1bn or 6% when excluding the seasonally elevated contribution of Mortgage Finance. Sustained success in attracting quality funding associated with our core offerings enabled growth in commercial client non-interest bearing deposits of 4% linked quarter while brokered deposits remain at a 10-year low comprising approximately 2% of total deposits. This positive trend will continue to support over the coming quarters selective reduction of the highest cost deposits where we are unable to earn additional business necessary to generate an appropriate return on capital.

Average mortgage finance deposits were 116% of average mortgage finance loans, a slight decline quarter over quarter and consistent with our guidance. We expect the ratio of average mortgage finance deposits to average mortgage finance loans to decline to 110% in the fourth quarter as the predictable changes in client deposits should match anticipated warehouse fundings. As a reminder, there is seasonality in these deposits as annual tax payments begin remittance out of escrow accounts in the second half of the fourth quarter which continues through January.

As detailed in previous calls, select mortgage finance deposits feature relationship pricing credits which are applied to both clients mortgage finance and commercial loans based on each loan type's contribution to interest income during the quarter. Attribution of interest credits are expected to follow a similar distribution for the duration of the year with approximately 60% associated with mortgage finance, and 40% aligned to commercial loans to mortgage finance clients.

Ending period non-interest bearing deposits excluding mortgage finance remain 13% of total deposits, and our expectation is that this percentage remains relatively stable in the near-term.

Our modeled earnings at risk increased slightly in the quarter as adjustments to the balance sheet composition resulted in marginally less forward downside rate protection, but potentially higher levels of absolute net interest income. The full impact of the 49bps decline in SOFR during the quarter resulted from our largely variable rate loan portfolio repricing down in advance of the Fed's move in late September. The timing of deposit repricing activities are more closely aligned to actual changes in Federal Funds rates and we expect our initial repricing efforts to be realized by mid-October and are therefore only partially reflected in the net interest income sensitivity disclosures.

In August the firm continued the multi-year process of effectively rationalizing the legacy balance sheet, selling approximately $1.24 billion of available-for-sale securities with an average book yield of 1.23%, purchased prior to 2021. Cash proceeds from the sale were used to purchase $1.06 billion of securities at a yield of 5.26%, which is expected to contribute an incremental $35 to $40 million in net interest income on an annualized basis.

We do anticipate continued reinvestment over the duration of the year which will improve securities yield while maintaining rate positioning.

Net interest margin expanded by 15 basis points in the quarter, and net interest income increased to $240.1 million. Quarterly net interest income benefitted from the impacts of balance sheet repositioning into higher earnings assets associated with our long-term strategy and quarterly improvements in both Mortgage Finance volumes and yields supported by the lower self-funding ratio.

As industry wide asset quality normalization continues so does our multi-year posture of prudently building the reserve to effectively address communicated legacy credits and buffer against the potential impact of an uncertain economic outlook. The total allowance for credit loss including off balance sheet reserves increased $6.5 million on a linked quarter basis to $319 million, up $28 million year-over-year, which when excluding Mortgage Finance is 1.87% of total LHI, a high since the adoption of CECL in 2020.

Criticized loans increased slightly to 4.0% of total LHI, as a decrease in special mention was offset by modest migration of a diversified set of credits within both the commercial real estate and the commercial loan portfolios into substandard. The period end composition of criticized loans remains weighted towards commercial clients with dependencies on consumer discretionary income as well as well-structured commercial real estate loans supported by strong sponsors.

Net charge-offs of $6.1 million, or 0.11% of average LHI, were comprised of a small number of commercial credits. Our identified legacy problem credits have now been reduced through resolution, workouts and payoffs to approximately $16 million, down from $200 million at the end of 2020.

Consistent with prior quarters, capital levels remain at or near the top of the industry.

Total regulatory capital remains exceptionally strong relative to both the peer group and our internally assessed risk profile. CET1 finished the quarter at 11.19%, a 43 bps decrease from prior quarter related the securities repositioning, and increased risk weighted assets from quarterly loan growth.

Tangible common equity to tangible assets finished at 9.65%, which continues to be ranked first amongst the largest banks in the country while tangible book value per share increased 14.3% year over year to $66.06, a record level for the firm.

Our guidance accounts for the market-based forward rate curve, which as of October 4th, implied 50 bps of additional reduction to Federal Funds Rate in November, followed by a 25 bps cut in December to finish the year at 4.25% which is a 100 bps decline since our last earnings call in July.

Given the significant change in near-term rate outlook, we are modestly reducing our revenue guidance to low single digit growth for the full-year.

Non-interest expense guidance of approximately $765 million contemplates the actions taken in September.

As shown again this quarter, we continue to effectively deploy capital in excess of our 11% CET1 minimum in support of published strategic objectives. Near-term capital priorities remain focused on growing the core business, improving future earnings generation, and increasing tangible book value per share, all areas where we continue to show material progress.

Quarterly increases in year over year PPNR growth should continue in Q4 2024, and for the duration of 2025.

Finally, while we maintain our conservative outlook we are reducing our annual provision expense guidance to 40bps from 50bps of average LHI excluding Mortgage Finance given both recent balance sheet and credit migration trends.

Moving to 2025, based on the economic and rate outlook as of October 4th, multi-year investments in infrastructure, data, and process improvements should continue yielding expected operating and financial efficiencies enabling targeted additional investment in talent and capabilities. Our current outlook with planned initiatives and expected revenue for full-year 2025 suggests non-interest expense of approximately $765 – $770 million.

Internal estimates against that economic backdrop also contemplate continued industry-leading client adoption and associated growth in our fee income areas of focus, with full-year targeted 2025 total non-interest revenue reaching $240 million.

Given our focus on leveraging the Firm's broad platform to serve clients based on their unique needs, balance sheet expansion, mix, and associated net interest income generation, remain the most difficult to estimate due to the dynamic macroeconomic and political backdrop. The market rate outlook as of early October incorporated rapid decreases in short-term rates over the next 9 months, with Fed Funds exiting the year at 4.25% and ultimately reaching 3.50% by June. In this outlook, as short-term rates come down,

the curve flattens significantly with the 10-year declining to 3.92% in December of this year then troughing around 3.80% in June next year.

Internal estimates in that rate environment suggest the potential for high-single to low double digit full-year average loan growth, with deposit repricing accelerating by the second half of next year, enabling high single digit net interest income growth. Given 80% of our current loan portfolio is tied to the short end of the curve, both a slower pace of reductions, and / or a higher terminal value should improve 2025 Net Interest Income generation.

After three years of aggressively building the reserve to reflect our consistently conservative posture, the near-term provision outlook has potential to move towards 30-35 bps of average LHI, excluding Mortgage Finance in 2025, more closely resembling trailing charge-off rates while preserving industry leading coverage levels.

Taken together, this outlook suggests achievement of 1.1% ROAA in the back half of next year, with potential for higher levels should the pace and magnitude of anticipated cuts moderate.

Operator – we'd now like to open the call up for questions. Thank you.

Operator

(Operator Instructions) We have the first question today from Woody Lay with KBW.

Woody Lay

Wanted to start on the loan growth strategy and more specifically loan purchases. The healthcare purchase helped sort of stabilized growth in the quarter. Do you think we could see additional loan purchases from here?

Just trying to get a gauge on the strategy there.

Rob Holmes

Hey Woody, it's Rob. I'll take that. So I wouldn't consider this a loan purchase, if you will. We had onboarded a number of bankers from a financial firm that had relationships tied to those loans, and we're able to acquire the loans and the relationships that come with those, some immediate and some over time. And we have a much more robust platform so that we can do many more things with those same clients and sponsors, thus being more relevant to them and driving a much greater return.

The loan purchase was a result of the strategic efforts, if you will. I mean to give you an example, I have personally already flown and met with the owners of over 80% of the companies that make up those loans. So we are not buying loan portfolios for loan growth or stabilization of loans whatsoever.

We've onboarded this year 110% of the same number of clients that we onboard at the same time last year. At some point, those clients will need to borrow and they can either borrow from our balance sheet

or we can raise third-party capital like we're very good at doing now with a record number of transactions and volume this year. We're agnostic to how we solve our clients' needs, and we advise them to solve those needs based on the best outcome for them.

But loan growth will certainly come. It has to with the amount of market share that we're taking and the amount of primary relationships that we're onboarding. Like you don't grow PxV in mid to high teens for three years without becoming the primary operating bank for those clients. So you have a primary operating bank, you're talking to them more regularly on a regular basis. Investor talked to them about capital needs on a more frequent basis. We're not really concerned about loan growth as a relative matter to the industry whatsoever.

Matt Scurlock

The only thing I'd add on that, Woody, is that the reason why we generally give CET1 guidance as opposed to loan growth guidance or buyback specific guidance that the way we're going to deploy capital is somewhat dynamic depending on opportunities we have to either fulfill the strategy and/or improve tangible book value. So this is simply an action consistent with the capital menu that we've been pretty disciplined in leveraging across the last three years.

Woody Lay

Yes. It's good to hear the optimism on the loan growth front.

Growth in the industry has been weaker this quarter. Does it feel like there's sort of a clearing event to get loan growth to ramp back up? Is it -- as you talk to clients, are they kind of waiting through the election? Or just any color on when you expect it to ramp up?

Rob Holmes

Look, the only thing I would say is we cover from business banking, which will -- with our pipelines, I believe we're a top five SBA lender to Business Banking in the very near term. That business is coming out of the ground, middle market banking, corporate banking. As you know we have different segments in corporate banking TMT, healthcare, FIG, diversified, energy, et cetera.

We do see more demand and loan growth in certain segments of that than others. The great thing is we cover the entirety with expertise and different products and services for each. I'm not going to predict loan growth whatsoever. But I would just say what I said before, we're agnostic to whether they borrow from us, or we place private credit or raise institutional debt.

But we certainly anticipate with our market share gains that when loan growth does come back in the economy, we'll certainly benefit from that.

Woody Lay

Got it.

Then maybe just shifting over to the investment banking side. It was a really strong quarter for you all. Just any additional granularity you could provide on sort of what drove the investment banking income in the third quarter?

Rob Holmes

I'll start, and then maybe Matt can do the number thing. I would just say it's exciting to the Investment Bank. Remember, we didn't build the investment bank for a different set of clients than the commercial bank or corporate bank or private bank in the same group of clients. It's one way to provide solutions to their very specific needs. My point is it's a group effort from the entirety of the firm to have record earnings in the investment bank.

Having said that, the thing that's most rewarding, if you will, on the investment banking side is it came from syndications. Which we're a top eight arranger of middle-market bank debt in the entirety of the U.S. It came from record volumes and fees in capital markets. It came from sales and trading and all different pockets of sales and trading, not just mortgage.

It is a universally increasing source of repeatable and recurring revenues at a much more granular level now. We did do a big deal, but that's not the entirety of why we had a record quarter. We're really excited about the investment bank and what it is today but also what it can be.

Remember, there's still a lot of pockets in investment banking, we have the entirety of the expense base consumed into the platform. For an example, public finance. We built sales and trading on the back of mortgage trading, which we built on the back of mortgage warehouse. Risk, appliance controls, process procedures, the people to run it, et cetera, technology. All those investments were already within the platform.

Then we also had a government not-for-profit business covering schools, towns, municipalities, and alike that our consumer is a public finance. All you do is you add the sales and traders for underwriting this debt with very little expense. Then on the C&I side, you've got more things you can offer to the clients you're already covering.

It's a revenue synergy and it's an expense synergy. We have that across the entirety of the platform with a lot of earnings potential to move forward. I don't see the investment bank going backwards. It's not going to be a straight linear up, but the strategy is proven, the clients hire us. I think we're growing investment banking fees at a faster rate than any firm certainly over the same period that we've been doing this.

Matt Scurlock

Yes. I think the record fee quarter Woody, isn't just isolated to the investment bank. The $54 million that we delivered in the income areas of focus, which are treasury, private wealth, and investment banking, that's 13% more this quarter than we delivered for full year 2020. So really strong performance across the board in all those areas that we've invested in heavily since Rob's arrival.

We do call out in the slides and worth noting here that after two consecutive record quarters in the investment bank, you are likely to see a modest pullback in the fourth quarter as pipelines rebuild in pursuit of the noninterest income levels that we gave you for full year 2025. I'd look for the fourth quarter in IB to be around $20 million to $25 million, which should pull fees somewhere into the $45 million to $50 million range for the fourth quarter.

Operator

We will now move on to the next question. We have Ben Gerlinger with Citi.

Benjamin Gerlinger

It seems like you've made progress. I get that it's a bit of a coiled spring here. But when you guys look at '25, just kind of what assumption are you guys using on mortgage warehouse or the NIM?

I get every quarter is going to be different based on the seasonality and just kind of look at just going forward, it seems like you've cleaned that up quite a bit behind the scene. Just any sort of numbers would be helpful.

Matt Scurlock

Yes. Feel free to title your research note the coiled spring. I'm not sure that's been used yet. Ben, we gave a ton of insight into our view for 2025.

I don't know that we're going to get a lot more detail on individual yields that are potentially 12 months in front of us. I will talk to a bit just about the rate curve because to your point, it does have a pretty significant impact both on balance sheet volumes and on yield as you move into 2025. The curve that we use is we're incredibly specific on the date given how much it's been moving was as of early October, so October 4th to be specific.

It exits the year with Fed funds at 4.25%. Fed funds moves down to about 3.50% in June. Then the 10-year, which is going to be most closely correlated with mortgage finance volumes exit this year at about 3.9% and then sits at about 3.8% midyear. I mentioned in the prepared remarks that the curve starts to flatten. In that environment, we think net interest income picks up high single digits. So that, coupled with $240 million of fee-based revenue and $765 million to $770 million of noninterest expense is where our internal view suggests drives 1.10% sometimes to back in the next year.

Benjamin Gerlinger

Got you. Okay. So you're looking at a quarterly 1.10%, kind of a run rate by the end of '25, is that also -- I mean to get more of the ROTCE number, how do you presume buybacks? Or -- I mean capital deployment, obviously is better for loan growth or usage for revenue production. I get that it's a strong strategy.

But does this mean you're going to completely stop buying back stock? Or just kind of how you approach capital deployment, assuming there's not a lot of activity kind of in the fourth quarter here. It seems like things might slow down a little bit temporarily.

Matt Scurlock

Yes. Our capital priorities then haven't really changed. I mean I think the actions this quarter, we pulled about every single lever that a management team can pull over the last 12 months. I think we're pretty pleased that the stock price makes buybacks marginally less appealing at this point at levels where we repurchased over the previous few years, but we'll evaluate forward buybacks the same way we have since Rob's arrival.

If we think about prioritization of different performance metrics, ROA has been one that's increasing in relevance for us since we made the determination that we were unwilling to push CET1 levels down to the 9% to 10% that was incorporated in the original September 1st [2021] strategic plan.

Our view is that financial resilience, which was a foundation of the company has only increased in importance post the events of last spring. So we're likely to keep CET1 around that 11% number. We're really focused on generating the right level of PPNR to average assets in a 1.10% ROA. The rate environment I just described, I think is one that's fairly punitive.

Should we not experience as many rate cuts and/or those rate cuts occur at a slower pace, that's net accretive to 2025 ROA. So our commitment to you guys as we would get to this quarter and start to lay out in detail our internal view of 2025 financials, and we hope that we've done that for you.

Operator

(Operator Instructions) We now have the next question from Matt Olney with Stephens.

Matt Olney

Appreciate all the forward outlooks here. Most of my stuff has been addressed. But I also just want to ask about the impact of the hedges I think you disclosed the hedge impact this quarter was $18 million drag. Just trying to appreciate the impact of the hedge as the notional balances come down as the Fed starts to cut overnight, and kind of what you're assuming within that '25 guidance?

Matt Scurlock

Yes. Great question, Matt. We hope that we improved the disclosure for you in the earnings presentation. The slide that we generally talk about NII sensitivity, the bottom left, we've now depicted both the maturities and the associated receive rates. The majority of those are tied to SOFR. There are some prime swaps. The majority are tied to SOFR.

You can follow the spot surfer curve if you're choosing to make the determination of the pickup in terms of received fix moving back to float. The first big slug of maturities is in the second quarter. Current spot SOFR is around 3.40% in that period with a receive rate of 3%. We pick up about 40 basis points as those swaps ultimately expire.

Then the balance sheet positioning in general, the curve is not particularly conducive to adding any additional downside rate protection at this point. So you will likely not see us reinvest cash flows in the bond portfolio recent purchases have been around 4.50% or so. We'd expect about $120 million a quarter given current rates.

Matt Olney

Okay. Great color, and I'll go back and look at that updated disclosure. Thanks for including that.

Then just lastly, on expenses. You've given us a good kind of outlook here for the fourth quarter and for next year. It sounds like for the most part, the infrastructure has been built out.

But you also talk about technology and how that's really should improve the operating leverage for the company. Any more color on kind of the technology you're using and how you're able to kind of effectively keep expense levels flat next year?

Rob Holmes

Yes. There's a really long answer. But in short, we have a persistent funding model and technology where we're investing a prescribed amount of money every year and change the bank while we try to be more efficient with how we run the bank.

As you know with our expense reductions and efficiencies that we've taken in the third quarter of this year, first quarter of last year and at other points in time, we do have a proficiency in reimagining our operations and eliminating or digitizing certain actions so that we take out expense, but more importantly or just as importantly, we reduce operating risk. We have over 30% of our tech spend on our own engineers, where we're really focused on client journeys.

Take an INITIO, there's no way in the world we could have grown PxV 14% to 17% year-over-year every quarter for a long time now without INITIO, which is an improved client journey, which reduces the time and the amount of money their clients spend to onboard, and they can do it in a day instead of five weeks that we talked about. This quarter, we will complete the installation of a new platform for our wealth business.

Our advisers and private bankers have been working doing a great job and hitting a record of 15% increase in fees, but they've done it really without the help of the institution. Well now technology is catching up, and our clients will have a better digital experience and better client journey.

Whether loan optimization. We now have workflow for credit. We didn't have a workflow before. As you all well know that helps in a lot of ways, gain efficiencies, mine data, creates an ability to measure what we're doing well what we're not doing. That will flow straight into our loan system, through the investment of technology, which also reduces operating risk and gains efficiency. It's happening all over the firm.

The investment in technology is something that I remember when we started, there was a real question

on whether we could -- there were concerned about us spending the money and making those investments. And I think with the reductions we've proven we're actually really good at it. And also, you got to remember, in our tech stack is we've written off most of the tech debt, and we have one stack. We're not a combination of two, three or four banks, spending money on technology for one system to talk to another.

We're one clean tech stack that we're investing in and improving, which I can make another point, which by definition, we built the entirety of our tech stack with a payments platform, merchant, lockbox, et cetera, over the past three years, by definition, we have the newest tech stack. So we have the most recent version of the best corporate card in market. We have the most recent version of a lot of these things. We're really, really excited and pleased that we can realize efficiencies from tech spend, and you should look for more of it.

Operator

(Operator Instructions) And we have the next question from Michael Rose with Raymond James.

Michael Rose

Just trying to better appreciate the loan growth expectations for next year. Can you just kind of break it down? I assume some of it is a pickup in utilization. I assume some of it's a migration of customers from lenders that you've hired over the past couple of years, maybe some reacceleration of growth in commercial real estate.

But if you can just help us better appreciate the complexion of the growth. And as it relates specifically to the lenders that have been brought on over the past few years, is that -- is the way you see that kind of a multiyear kind of tailwind to growth kind of regardless of what the broader economy does?

Rob Holmes

Look, I do think there's tailwinds. Sorry, I thought I touched on this a little bit before. Our advantage is when we're more relevant to our clients and we cover the entirety of the market through business banking, middle market banking, corporate banking, in different vertical expertise in corporate banking from TMT, healthcare, FIG, diversified, energy, government not for profit. Whichever part of the economy expands, we will capture, and we'll capture that because we're also capturing more clients on the platform year-over-year than ever before.

'22 was a record year, '23 is a record year. This year, year-to-date, we gained 110% more clients than last year. When loan demand picks up in the economy as the economy grows, we will be the beneficiary of that. We're really excited about that. If they don't need bank debt, we could also provide third-party capital as well. So as companies expand, whether it's in the bank market, private capital, private credit market or institutional market, we'll be there and advise our clients on what is best for their cost of capital.

Michael Rose

I'm sorry if I made you repeat some of that got on a little bit late, lots of calls incoming but...

Rob Holmes

You didn't.

Matt Scurlock

We like repeating that.

Michael Rose

Okay. All right. Maybe just kind of one follow-up. I guess the way I kind of think about you guys, a lot of work done over the past couple of years, the chassis built. I think you have the product set that you want and any additions would be, I would say kind of around the edges. Is that a fair characterization?

Then just kind of continuing to drive the positive operating leverage every quarter and just playing out is from here, but no real major kind of additions to the platform at this point.

Rob Holmes

Michael, I can speak on behalf of every employee here saying we are grateful that is where we are. It's been a long transformation, as you know. We will have incremental products and services that we had, I'm sure. I would say we are wholly complete with the platform, we could run this platform and be perfectly happy with it as is for a long period of time, but we will continue to be opportunistic, if you will.

Operator

I would now like to hand it back to Rob Holmes for some final remarks.

Rob Holmes

Look we're really excited about where we are on the three-year anniversary of where we announced our strategic plan. We're more convinced than ever is the right strategic plan. The financial results would support that as our strategic actions are turning into financial outcomes. We're grateful to our clients, our employees. Thank you for listening.

Operator

Thank you, all for joining the Texas Capital Bancshares third quarter 2024 Earnings Conference Call. I can confirm today's call has now concluded. You may now disconnect from the call. And please enjoy the rest of your day.