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Texas Capital Bancshares, Inc.

Q3 2025 Earnings Conference Call

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Eastern

**CORPORATE PARTICIPANTS**

**Rob Holmes** – *Chairman, President & Chief Executive Officer*

**Matt Scurlock** - *Chief Financial Officer*

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

**Operator**

Good afternoon. Thank you for attending the Texas Capital Bancshares Q3 2025 Earnings Call. (Operator Instructions) I would like to pass the conference over to our host, Jocelyn Kukulka, Head of Investor Relations. Jocelyn, please go ahead.

**Jocelyn Kukulka**

Thank you for joining us for TCBI's third quarter 2025 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 at the date of this call and we do not assume any obligation to update or revise them. Today's presentation will include certain non-GAAP measures including but not limited to adjusted operating metrics, adjusted earnings per share and return on invested capital. For a reconciliation of these and other non-GAAP measures to the corresponding GAAP measures, please refer to our earnings press release and our website. 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 [texascapital.com](http://texascapital.com).

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

**Rob Holmes**

In September of 2021, we announced a detailed and historically ambitious 4-year plan to transform Texas Capital into Texas's first full-service financial service firm, worthy of banking the best clients in our markets. We said at the time that the magnitude and timeline associated with this wholesale rebuilding of the firm was the result of an immense opportunity to create something of unique and durable value, and that achievement of our vision would be defined by a series of specific and important measures of strategic and financial successes. Despite the many expected and unforeseen challenges, we've been steadfast in our strategic objectives, transparent with necessary improvements to our business model, and unwavering in our commitment to deliver a differentiated offering for our clients, and result for our shareholders.

Thanks to the resolute work of our team, I am incredibly pleased to report third quarter results which confirm delivery of the remaining goal described at the beginning of our transformation in September 2021, achievement of a 1.3% return on average assets, well above the communicated target of 1.1%.

These results mark an important milestone and are a financial acknowledgement of the continued intensity in which we deliver distinctive value to our clients through our wholly differentiated, and increasingly scalable platform.

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When we began this transformation in 2021, we noted specifically the material gaps in our balance sheet and business model that required resolution to facilitate consistently high-quality client outcomes, acceptable risk-adjusted returns, and ultimately, enhanced franchise value.

A critical early component of earning the right to bank the best clients in our markets was moving away from the legacy approach of relying on leverage to deliver financial performance, and instead building a platform characterized by its resilience to market and rate cycles. Since that September 2021 announcement, we've added 247 bps of tangible common equity, the most of any bank in the country with over \$20 billion in assets and finished the third quarter with tangible common equity to tangible assets of 10.25%, an all-time high for the firm. This exceptionally strong capital position, coupled with liquid assets of 24%, continues to allow for a consistent and proactive market facing posture as we are now distinctly capable of supporting the diverse and broad needs of our clients in any operating environment.

Prior to our transformation, existing operational silos resulted in limited scalability and disjointed market coverage. After developing well-defined and disciplined organizational routines early in the transformation, the extensive investments made across the franchise to deliver a higher quality operating model is facilitating the intended results. Our now cohesive platform enabled the entire Company to effectively contribute to a third quarter that was the best in the Firm's history, featuring record revenue of \$340 million, record pre-provision net revenue of \$150 million, record net income to common of \$101 million, record earnings per share of \$2.18, and record tangible book value per share of \$73.02.

As we also described in 2021, the foundation of our transformation is the deliberate evolution of our Treasury Solutions platform. The firm is no longer overly reliant on disconnected, high-cost, high-beta national deposit verticals. Indexed deposits now comprise only 6% of average total deposits and are down nearly \$10 billion from 2020. This dramatic rebuilding of our funding base is in large part attributable to our best-in-class payments offering, which enables us to successfully compete for, win, and serve as the primary operating relationship for the best clients in our markets. Our Firm now provides faster, more seamless, client onboarding than the major money center banks and ongoing frictionless client journeys that match or exceed theirs, with high-touch, local service and local decisioning. This sustained focus resulted in an industry leading 91% increase in Treasury Product Fees over the past four years.

The strength of our balance sheet, breadth of our product offerings, and quality of our talent now ensure our clients never outgrow the services we can provide for them. Historically, our relatively low client relevance was in part result of a narrow product offering, leading to overdependence on loan growth to drive earnings. We now approach the market based on our clients' needs, not our own, with tailored offerings for each stage of their life cycles and double the number of client facing professionals providing advice, not just capital.

This cultural and structural shift is driving material success with targeted clients and prospects of all sizes. The Firm is now a top 5 Texas-based originator of SBA loans, evidencing our commitment and ability to effectively serve small businesses. We now have industry-specific coverage aligned with businesses that comprise 100% of the addressable Texas economy. And, we've built the first full-service investment bank in the state, achieving one of the most successful launches in history. This unique, and sustainable competitive positioning results in over 90% of new clients choosing Texas Capital for additional products and services alongside traditional bank debt, signaling our increasing relevance, and supporting the largest organic non-interest income growth rate of any bank in the country with more than \$20 billion in assets over the last four years.

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Strong execution across each area we noted for improvement is supported by a highly disciplined and analytically rigorous capital allocation process focused solely on driving long-term shareholder value. We have and continue to bias capital towards franchise accretive client segments, evidenced by our commercial loan growth, when excluding PPP loans and the divestiture of the premium finance sub, of \$5.3 billion or nearly 80% since 2020, and in times of market dislocation, repurchased nearly 12% of shares outstanding at a weighted average price of \$59 a share.

Taken together, we accomplished the most successful bank transformation in the last 20 years and are increasingly the first call for the premier clients in each of the markets we serve. Intentional decisions along the journey have positioned us to deliver attractive, thru-cycle shareholder returns, with both higher quality earnings and a lower cost of capital as we continue to scale high value businesses through increased client adoption, improved client journeys, and realized operational efficiencies – all timeless objectives we intend to remain focused on and consistent with creating lasting value.

None of this would be possible without the incredible commitment, creativity, and professionalism demonstrated by the Texas Capital employees. Your belief in the long-term vision of the Firm, perseverance in the face of, at times, intense skepticism, and continued dedication to driving positive outcomes for our clients is the leading force behind the transformation. It is truly remarkable to see the talent on this platform and the culture we are defining with our actions every day. I look forward to continuing to partner with each of you as we never stop working to build something special for our clients, who deserve nothing less.

Thank you for your continued interest in and support of our Firm. I'll turn it over to Matt for details on the financials results.

**Matt Scurlock**

Thanks, Rob, and good afternoon.

Third quarter total revenue increased \$35.4 million or 12% relative to Q3 adjusted total revenue last year, supported by 13% growth in net interest income and 6% growth in fee-based revenue.

Linked quarter adjusted total revenue increased 10%, or \$31 million as continued balance sheet momentum resulted in an \$18.4 million increase in net interest income, and broad contributions across investment banking drove a \$12.6 million improvement in adjusted non-interest income.

Total non-interest expense increased by just \$1.7 million compared to adjusted non-interest expense in Q2, as previously realized structural efficiencies continue to enable repositioning of the expense base in support of defined capability build.

Taken together, year-over-year adjusted pre-provision net revenue increased 30% or \$34.9 million to \$149.8 million, an all-time record for the firm.

This quarter's provision expense of \$12 million resulted from modest growth in gross LHI, \$13.7 million of net charge offs, and our continued view of the uncertain macroeconomic environment, which remains decidedly more conservative than consensus expectations, partially offset by the notable multi-quarter improvement in portfolio credit quality. The firm's allowance for credit loss finished the quarter at \$333

million, or 1.79% of LHI when excluding the impact of mortgage finance allowance and related loan balances, which is the highest level relative to criticized loans since 2014.

As Rob noted, our record quarterly net income to common of \$100.9 million represents a 36% increase compared to adjusted net income to common in Q3 of last year. This continued financial progress coupled with a consistently disciplined multi-year share repurchase approach contributed to a 37% increase in quarterly earnings per share compared to adjusted earnings per share from a year ago.

The Firm continues to operate from a position of financial strength, with balance sheet metrics remaining exceptionally strong.

Focused routines on target client acquisition are delivering risk-appropriate, and return accretive, loan portfolio expansion, with ending period gross LHI balances, excluding mortgage finance, growing approximately \$100 million during the quarter and total commitments excluding mortgage finance up \$577 million or 8.2% annualized.

Average commercial loan balances increased 3% or \$317 million during the quarter featuring broad contributions across areas of industry and geographic coverage, with ending period balances up approximately \$1.0 billion, or 9% year over year.

As expected, real estate loans were flat quarter over quarter, including payoffs and paydowns of criticized assets. Despite a modest increase in real estate clients' new business volume, our expectation remains that payoffs will outpace originations over the duration of the year, resulting in lower 4th quarter ending balances.

As anticipated, average mortgage finance loans increased 3% linked quarter to \$5.5 billion, as seasonal homebuying activity hits its annual high during the third quarter, with ending period balances of \$6.1 billion reflecting initial pull-through from the late quarter reduction in mortgage rates.

We continue to expect full-year average balances to increase by approximately 10%, which is predicated on a \$1.9 trillion-dollar origination market.

As noted on previous calls, sustained success winning high quality deposit relationships continues to allow for the select reduction of higher cost deposits where we are unable to earn an adequate return on the aggregate relationship. These trends are evidenced in part by our sustained ability to effectively grow client interest bearing deposits which when excluding multi-year contraction in indexed deposits are up \$3.3 billion, or 22% YoY, while also effectively managing deposit betas, which are 70% cycle to date accounting for the late September rate cut.

This impact is also observed in the structural reduction in the ratio of average mortgage finance deposits to average mortgage finance loans, which remained at 90% this quarter, down significantly from 116% in Q3 of last year, the result of which continues to positively affect margin while also improving liquidity value. We expect this ratio to decline to roughly 85% during the fourth quarter as loan volumes come off their seasonal peak and deposit balances predictably decline with the remittance of property tax and insurance payments.

Our modeled earnings at risk were relatively flat quarter over quarter, with current and prospective balance sheet positioning continuing to reflect a business model that is intentionally more resilient to changes in market rates. This is most readily depicted by our 13% increase in YTD net interest income, 12% increase in YTD adjusted total revenue, and 31 bps increase in quarterly net interest margin [year-over-year], despite short-term rates being approximately 100 bps lower over the first nine months of this year.

We continue to effectively manage duration against this backdrop, as previously executed swaps that have matured over the last few quarters were only partially replaced with both additional securities and new forward starting receive fixed swaps.

During the 3rd quarter, approximately \$1.5 billion in swaps matured at a roughly 2.95% receive rate, while another \$250 [million] matured on October 1st at 3.25%. Based on purchases made earlier in the year through early October, a series of receive fixed SOFR swaps have recently or will become effective; \$200 million became effective on August 1st at a blended receive rate of 3.94%, \$100 million became effective September 1st at a rate of 3.76%, \$200 million became effective October 1st at a blended rate of 3.58%, \$100 million becomes effective on November 1st at 3.55%, and another \$100 million becomes effective December 1st at a receive rate 3.32%.

We do still anticipate future interest rate derivative or securities actions over the remainder of the year, as we look to augment potential rates fall earnings generation at materially better terms than available during our deliberate pause through the mid-part of last year.

Net interest margin expanded 12 bps this quarter, to 3.47%, supported by increased loan yields, growth in loans, and previously noted improvements in deposit pricing.

The total allowance for credit loss including off balance sheet reserves of \$333 million remains near our all-time high, which when excluding the impact of Mortgage Finance allowance and related loan balances was flat linked quarter at 1.79% of total LHI, in the top decile among the peer group. Ending period reserves as a multiple of non-accrual loans increased to 3.5x, benefitting from steady allowance levels and a \$17.5 million reduction in previously identified problem credits.

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Positive grade migration trends continued across the portfolio, with total criticized loans down \$108 million, or 17% linked quarter, and \$368 million, or 41% year-over-year. Criticized loans to total LHI finished the quarter at 2.19%, the lowest level since 2022, with watch list loans also declining to multi-year lows.

Despite continued notable portfolio improvements, we remain focused on proactively assessing the credit impact of a wide range of macroeconomic and portfolio-specific scenarios. Included is regular assessment of loans to non-depository financial institutions, of which 80% are loans to mortgage credit intermediaries within our well-described and long-held mortgage finance business, that is in part characterized by its short dwell times, robust monitoring and direct collateral access. The remaining portion, which equates to 8% of our total September 30th loan balances is comprised of high-quality asset managers or finance companies covered within our designated industry verticals, with which we often have direct operating relationships supported by multiple product touchpoints and heavily structured credit agreements and utilization of in-house field examiners when applicable. As of September 30th, 99.7% of these credits were rated in our pass category, with only \$23 million in special mention.

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 12.14%, a 69bps increase from prior quarter with strong capital generation again augmented by a reduction in risk weightings associated with enhanced credit structures in the mortgage finance portfolio discussed over the last few quarters. By quarter end,

approximately 54% of the mortgage finance loan portfolio had migrated to the enhanced credit structures, bringing the blended risk weighting to 62%. Our continued client dialogue suggests that another 10-15% of funded mortgage loan balances could migrate into the structure over the next two quarters further improving both our credit positioning and return on allocated capital.

Turning to our full-year 2025 outlook, we are reaffirming our revenue guidance of low double-digit percentage growth, reflecting confidence in the durability of our diversified earnings platform and ability to drive consistent client engagement across a range of market conditions. Importantly, our guidance is unchanged despite now including two 25bps rate cuts over the remainder of the year, one in October and one in December, with the forward curve assuming an exit rate of 3.75% at year end.

Given continued success effectively matching our expense base with stated firm-wide priorities, we are decreasing our non-interest expense outlook to mid-single-digit percent growth from mid to high single digits percent growth previously communicated. This reduction is driven by sustained realization of structural efficiencies, partially offset by continued platform buildout, including modest growth in non-salaries and benefits related costs associated with putting new capabilities into market.

The full year provision expense outlook remains 30-35 basis points of loans held for investment, excluding mortgage finance, which should enable the preservation of industry leading coverage levels, while effectively supporting our client's growth needs.

Taken together, this outlook suggests continued earnings momentum on the back of what was clearly a historic quarter for our firm.

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

**Operator**

(Operator Instructions) First question is from the line of Michael Rose with Raymond James.

**Michael Rose**

Just kind of start with, if I could pick anything apart in this quarter. It seems like maybe the loan (Technical Difficulty) the period end was a little bit lower on held-for-investment side than the average.

Just wondering if there's paydowns because it does look like the -- you guys had pretty nice growth in commitments. I think they were 11% or so Q-on-Q. So I know you guys don't like to talk about loan growth per say (Technical Difficulty) fourth quarter, so with here kind of the puts and takes and any sort of forward outlook you might have.

**Matt Scurlock**

Yes. You bet, Michael. You broke up a little bit. So if you have a follow on, feel free to go and ask. I think at this point, our track record suggests we are uniquely differentiated in our ability to effectively access the right type of capital for our clients. And our focus is squarely on providing the right solution for them, not on where it ultimately shows up in our financials.

So that backdrop, we were highly active this quarter in terms of capital distribution with really strong client acquisition trends across the entirety of the platform. So as you noted, for those clients that are best served in the bank markets, we continue to be an industry leader. C&I commitments for this quarter increased by \$576 million or 11% annualized, up 12.6%, \$2.4 billion year-over-year. According to middle-market league tables and Q3, we arranged access to more syndicated bank debt than anyone in the country other than JPMorgan.

So we noted in the prepared remarks that full year client growth continues to be broad-based across corporate, middle market and business banking, we spent the last four years, trying to assure we have a platform and solution set that's tailored for each stage of our clients' life cycle. For clients whose capital needs are best met outside of the bank markets. We delivered a highly successful debt capital markets transactions in high-yield, term loan B. and private credit this quarter with importantly, an increased volume of repeat clients, which supports a more granular, repeatable and we certainly think higher quality fee base.

Then finally, after clearing the first trade on the last day of the last quarter, equity capital markets business participated in a series of IPOs this quarter, which provides yet another capability for clients looking to access capital. So as we think about our ability to support clients when you combine record high capital levels for the firm, which, in most cases, is industry-leading and then improved capabilities across the firm, that should drive really strong revenue growth in terms of -- related with finding capital for our clients whether our balance sheet is the best spot for it or not.

**Michael Rose**

I really appreciate the color. That's really helpful, Matt. Maybe just as my follow-up, just as you think about investment banking and trading line item, obviously really good results. I know you guys have kind of talked about \$50 million a quarter run rate at some point.

Can you just update maybe some expectations there? Then would you expect any near-term headwinds maybe from the government shutdown as (inaudible) or things like that?

**Matt Scurlock**

Yes. I'll talk about the fee outlook. Michael and Rob do you want to talk about the investment banking business in general? So obviously the Q3 fees were on the high end of the guide, which is from the fourth consecutive quarter for us in TS reporting a year-over-year growth in excess of 20%.

We did have a record investment banking quarter that despite some meaningfully sized transactions, it was really characterized by the volume of client interactions, the breadth of the capabilities that they chose to utilize, and then as I mentioned, the increased granularity and repeatability of those fees.

We're nearing full year fee income guide to \$230 million to \$235 million, with expectations for fourth quarter noninterest income of \$60 million to \$65 million on the back of \$35 million to \$40 million again in the investment banking business.

**Rob Holmes**

I don't really have anything to add, Matt, other than it is a much healthier earnings in the Investment Bank. As Matt mentioned, it's much broader in terms of product and clients, it's much more granular and it's much more repeatable. And now the whole platform is working in unison, debt, equity, M&A, sales, trading, rates, FX all of it. And most clients use more than one of those products at a time.

So we're really, really encouraged about the business, really happy with the team we have on the platform, and I think they've proved it to be a highly valuable client accretive practice. I don't know of a de novo investment bank that's grown as fast as we have, become profitable as quickly as we did, across the entirety of the platform. So from sales and trading, doing close to \$300 billion of notional trades to date and they may have crossed it today. As a matter of fact, we'll see. So we're really excited about the quality of earnings.

**Operator**

Next question is from the line of Woody Lay with KBW.

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**Wood Lay**

I wanted to start on NII. I appreciate the comment about how despite a 125 basis point reduction in short-term rates, you were able to increase NII 13% year-to-date.

So in light of the September cut and kind of the expected additional cuts from here, how do you think about your ability to continue to grow NII with that backdrop?

**Matt Scurlock**

Yes. The other stats that we quoted related to that year-to-date performance, revenue and PPNR up 12% and 35%, respectively, with a 100 basis point reduction in short-term rates. So I think for us, that experience suggests it's really less about the absolute level of rates, and it's more about the timing. So as you know it does take us a quarter or two for the balance sheet to fully reprice after a series of cuts with implied force, and therefore, our guidance suggesting that's going to occur again in October and December.

So against that backdrop, we think about 4Q net interest income is \$255 million to \$260 million with net interest margin around 3.3%. As you know our variable loan portfolio will absorb those changes in rates before we can effectively reprice deposits. We continue to be really pleased with the ability to increasingly compete in deposit space based on the value that we had and not just price.

So we noted in the prepared remarks that cycle-to-date beta of 70% included those September cuts, which after repricing the deposit base over the last few weeks should get current levels back to about that 80% interest-bearing deposit beta that we experienced through Q2. Also consistent with previous quarters, the guide contemplates only 60% interest-bearing deposit beta across the next two cuts, which reflects at least our expectation for increased liquidity costs as folks look to more aggressively extend credit and then sustained composition of commercial noninterest-bearing -- average commercial non-interest bearing at about 13% of total deposits.

**Rob Holmes**

I would just add that we were before, highly commoditized as a bank. And now people bank with us for a lot more reasons than price of liabilities or capital, which allows us to demand more, and I think it's a direct reflection of the quality of product, service and advice that we deliver to our clients.

**Wood Lay**

Got it. That's helpful color. And next, I kind of -- I wanted to move to credit. Dating back to 2021, it's been a remarkable transformation. It's easy for us to see from an earnings standpoint, a capital standpoint because we can see the numbers

But I know that there's been a credit transformation as well. It seems like sometimes the market, unfairly punishes you based on some of the legacy that predates y'all's leadership. So I'd love to just hear about the credit transformation dating back to 2021.

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**Rob Holmes**

I'll take it and you take the specifics. Look, I think this quarter, criticized loans down \$368 million or 41% [YoY] that Matt discussed is on par with strategy.

We're really, really aggressive when it comes to client solutioning and we're very, very conservative as it relates to risk, whether it's credit risk, operating risk, market risk, whatever risk you want to contemplate, we think client selection is the number one mitigant. And I think that client selection if you're banking the right clients, they do the right things, even when there's a problem. And most of the time more of than not versus adverse client selection, you're not having those problems. And that's -- I think that really manifests itself here recently with a lot of banks being caught without collateral or without the proper underwriting and diligence by their teams. And as you know that did not happen here.

So I'm really pleased with the intensity of the risk platform, how they proactively manage the loan book, but also our bankers. Our bankers are very focused on client selection as it relates to risk, just as much as they are on treasury or other parts of the platform. So I think it's foundational to what we've built and goes along with being well capitalized.

**Matt Scurlock**

The only thing I would add to that, Woody, is that the metrics that depicting portfolio health coverage today are certainly as strong as they've been since we started the transformation, but in a lot of cases, as strong as they've been in over a decade.

So Rob generally demands constant monitoring and multiple portfolio or scenario specific stresses every quarter, and we today really see no systemic or industry-specific themes in the credit book, most of what's remaining in criticized is idiosyncratic in nature.

**Operator**

Next question is from the line of Matt Olney with Stephens.

**Matt Olney**

First off, great to see all the green check marks on Slide 4, great execution.

As far as capital I think the presentation knows that the risk-weighted assets at the bank now in the top quintile of the peer group and that TC ratio in the top quartile I think from our side, we're trying to weigh if this capital could be a deployment opportunity in the next few years for you?

Or do you feel like having this excess capital gives you a competitive advantage as you add new customers, which could suggest you want to continue to maintain these capital ratios close to current levels?

**Rob Holmes**

Thanks, Matt. I appreciate the question. I think it's more than fair. If I repeat myself from previous calls, forgive me. But as you know we have a very disciplined capital menu that we follow literally every day. And the first is in fast organic growth with new clients and there's an abundance of demand in the new organic growth with new and deepening clients. Then there is investing in the platform, products and services.

I would argue we built the most broad relevant product platform in banking in the last 10 years with all of our capabilities, done a pretty good job with that, getting a return. Then you move on to -- not in the conventional capital menu, but I look at bond repositioning and loan portfolio acquisition that we did in the third quarter of last year.

Then we move to distribution policy. We're not going to do a dividend, but we bought back 12% of the company at an average price of \$59 per share, all below book value. Then you get to M&A, which is we sold a company for \$3.5 billion, which really was the foundational component that made this turnaround possible.

So I think -- and by the way we did that before other banks tried and failed. So I think we've proved to be really good stewards of capital including the expense capital. We took out \$270 million of NIE and put that back plus more in rebuilding the platform that's achieving these returns. So the last thing on that capital menu would be whole bank M&A. And until you get to profitability, that was red on the menu. We look at it. We study it. We focus on it. We're ready for it, but it was red on the capital menu. Now maybe it's yellow because we have the earnings, but we need the currency.

We're super focused on tangible book value per share. That's paramount to us. That's gone up 40% since the beginning of the transformation. I think the average bank is 30% or 31%. So while doing a transformation, we outperformed, and I would just hope that we get the benefit of the doubt that we can outperform going forward, and we'll be good stewards and be highly sensitive to red, yellow and tangible book value.

But Matt, let me add one quick thing because you mentioned it. It is absolutely a benefit go-to-market with clients. You cannot deny it. I had the CEO of one of the fastest-growing companies of specific industry here today at lunch with me, and we talked about that. And they do -- we were on the cover of their debt deal. They do treasury with us. They do their corporate card with us. We talked about how well capitalized we were and how comfortable they were with us because of that. So it is undoubtedly a competitive position in the market.

**Wood Lay**

Okay. Got it. Then I guess just following up on that, some of your commentary, Rob, on the M&A front. As you think about kind of what's what you're building and then what you prefer to build organically versus acquire?

Are there certain businesses that kind of lend itself more towards M&A, for example, depository versus investment banking or wealth management? I guess what is your -- what would the M&A focus be if and when that comes to pass?

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**Rob Holmes**

I think that I think you should assume that we look at everything out of discipline fintech, depository, wealth you name it. We also recognize that our best return would be realizing the revenue and cost synergies of the transformation. I mean we have so many costs that we don't have to add to to realize revenues and earnings and return already embedded in the platform.

Matt just talked about our new equities business. We don't have a return on that yet. Our new corporate cards, 16th largest transaction volume card in the country, and we don't have a return on that yet. But they are also -- I mean they're doing so well and we fully expect to get a super return in the near term. So we have a lot of revenue and expense synergies that we can realize without doing M&A.

**Operator**

Next question is from the line of Brett Rabatin with Hovde Group.

**Brett Rabatin**

I wanted to ask about the expense guide. You obviously trended a little bit for the full year and obviously for 4Q relative to maybe prior expectations. But it does suggest -- kind of mid-single digit does suggest a little growth in the fourth quarter.

Can you maybe talk about the fourth quarter in terms of expenses and then just as you guys think about it, the build. I know you're really efficient at this point, but the build that might happen in '26 with additional initiatives?

**Matt Scurlock**

Let me take that, Brett.

We do expect noninterest expense of about \$195 million in the fourth quarter as salaries and benefits move into the low 120s and then other noninterest expense drifts above \$70 million due to higher occupancy, marketing costs and primary legal and professional that's associated with putting new capabilities into market. That puts you at about \$778 million for the full year, which is right on top of the now revised lower expense guide of mid-single digit.

It's probably too early to talk about expectations for 2026.

But to Rob's commentary, we do think we have a track record of effectively positioning the expense base against the most productive sources directly aligned with the strategic objectives so that's a theme you should expect to continue.

**Brett Rabatin**

Okay. That's helpful.

Then the other question I had was just given the solid improvement in criticized assets, I thought it was interesting, Rob, you kind of sounded like during your prepared comments that maybe you're a little more cautious or conservative relative to the macro environment expectations. Any color on that and what that might mean and how you're thinking about the go forward?

**Rob Holmes**

No. I think that, that's -- if you ask anybody that works here or knows me, I am highly paranoid. So we are always looking at downside scenarios, doing tabletop exercises, trying to understand -- I mean -- like as you know we've talked about before, we're were doing table tops on tariffs six months before Trump was elected because he was talking about it during his campaign. We didn't even know if he'd be elected.

So we try to look around corners the best we can. We don't always get it right. We're not perfect, but that's why we focus so much on it. So it's nothing more than a conservative posture and stance that is kind of how we run the business.

**Operator**

Next question is from the line of Ben Gerlinger with Citi.

**Benjamin Gerlinger**

With respect to the mortgage finance, I know quarter-to-quarter, it can have volatilities with the home selling season and equity levels and all that.

But over the last couple of years, you guys have made tremendous strides on both sides of that silo, I guess you could say of the business. When you think about just the yield, we think full year, so you can encapsulate peak to trough. What would be an appropriate yield or what you guys might think for next year?

**Matt Scurlock**

Yes. Too early, Ben, on next year guide. I think you're safe from the fourth quarter, which is what we're giving guidance today to think about mortgage finance at about 3.8%, and that's with an 87% self-funding ratio and two Fed cuts.

**Benjamin Gerlinger**

Right. No. I got you. That's fair. It seems like you guys obviously going to oscillate, but I would assume probably 4-plus full year.

**Matt Scurlock**

As you know Ben, we alluded to it in the discussion on NII and margin, it takes a couple of months for the reduction in deposit cost to flow through to yield.

So if you think about the third quarter yield of 4.32%, down to a 3.80% in a seasonally slow quarter, that's about as punitive impact to the mortgage finance yield, as you could see.

We're still talking about an aggregate NIM of 3.30% and NII of \$255 to \$260 million, which gets back to some of the earlier commentary on the improved defensibility of the revenue profile despite what's happening with short-term interest rates.

**Benjamin Gerlinger**

Got you. Okay. Fair enough. Then with the kind of core loan yield, it was up 14 bps linked quarter. Was that -- so is something you use idiosyncratic in there?

Or is it just kind of hedging and the new production being added?

**Matt Scurlock**

It was primarily new production. There was about \$3 million pickup in linked quarter fees that flowed into loan yield. But that's been honestly been steadily building for the last year or so as our transaction volumes increase. So again if we think about 50 basis points coming out between now and the end of the year, that could push that LHI yield inclusive of mortgage finance down to, call it, six or so. Then we totally gave about as painstakingly as clear guidance on the hedge profile as we could in the prepared remarks.

**Benjamin Gerlinger**

Yes. I've got to read the transcript on that one. That was too much, but I appreciate all the color.

**Matt Scurlock**

Yes. We can't say it again.

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**Operator**

Next question is from the line of Janet Lee with TD Securities.

**Janet Lee**

Is there mortgage finance self-funding ratio, I appreciate the table that you guys included there. It looks like that 85% self-funding ratio for the fourth quarter has to do with some seasonality factors.

If I were to look into just over an intermediate term, is there a structural opportunity to reduce that further as you get more client deposits?

Or is this 85%-ish level, the right level for you guys?

**Matt Scurlock**

Great question. Janet, I'll hit that question specifically. And Rob, you can please talk about the business, which is an important one for us. I mean that's how funding ratio peaked at 148% for us.

So the impact on this quarter's margin of the year-over-year change in self-funding ratio is 12 basis points. So it's been incredibly impactful for us to effectively drive relevance with primarily depositors in the commercial bank, which has enabled us to lessen reliance on those mortgage finance deposits. So as I think we've said maybe for the past three or four calls, we're going to continue to focus a lot of resource, a lot of investment on continuing to expand the treasury and deposit wallet with commercial clients.

To the extent that we continue to grow that at \$3 billion or 20-plus percent year-over-year, it will give us opportunities to lessen reliance on those mortgage finance deposits. So it's absolutely a trend that we hope to continue. It both improves the margin, the data profile as well as importantly for us, the quality of our liquidity base, which is something that we focus a lot on internally.

**Rob Holmes**

And our relevance to our clients. I mean quarterly treasury fees have grown 91% since the beginning of the transformation. So we're pretty good at it. What I would just say is the mortgage business remains very, very important to the firm. But it's wholly different than it was when we started.

So think of it as an industry vertical, not just a place to win money. We're doing whole loan trading, TBA spec pool trading. We're doing hedging. We're doing some of our largest treasury service operating accounts or with mortgage clients. If you look at it as a segment or sector like healthcare or TMT or energy, it's a very profitable, very good business. We're bringing down the RWA in the business. We're increasing the margin of the business and our diversity of revenue coming from that segment is very broad. So it's way more than just the yield in the warehouse, even though that's still a big part of the income statement.

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**Janet Lee**

Got it. And just on the -- your commentary on expenses this line around reflecting maturation of the platform.

Should I -- maybe I'm reading into this too much, but does that mean that you have enough people and businesses in place without you needing to like hire a lot more talent into your company as you have in the past few years?

Or how should I interpret that commentary?

**Rob Holmes**

I think you should look at doing a transformation with the expense discipline we've had over the last four years and last year, keeping NIE flat while dramatically improving the earnings base of the franchise, and know we'll do it in a very careful way.

But are we looking to add talent to the platform? Absolutely. Do we need to add the operating risk and controls and the accounting and the compliance and everything behind that talent? No. We don't. That's there.

So the incremental head count that we add now is very small on the margin versus what we were doing before. Before, we would have to add talent. We had to build a whole infrastructure behind that talent from the front to the middle to the back office. I think that's what most people missed. Now we're through that process. Now the incremental head count that we add to the front office, not middle and back, we're focused on front. We are excited about adding and our clients are looking for us to add it, and we'll do it in a very disciplined way.

**Operator**

Next question is from the line of Anthony Elian with JPMorgan.

**Anthony Elian**

Matt, can you go over the maturities of CDs in 4Q, what rates they're maturing at and the posted rates you've seen recently?

**Matt Scurlock**

\$765 million matures in 4Q at a weighted average rate of 4.22%. Posted rates are currently at 4% you would obviously see those step down, Tony, if the Fed realizes the forward curve.

**Anthony Elian**

That's clear. Then, Rob, Slide 4, it's clear all the progress you've made -- the company has made over the past several years including achieving your ROA target in 3Q.

So I'm wondering what happens now right? Is it just purely about execution, some incremental hires? Should we expect new targets at some point to get announced?

**Rob Holmes**

Great question. Look, I think it was -- I don't think a lot of public companies give four-year guidance.

We recognize in the middle of the transformation in a wholesale change literally touching the entirety of the platform, how important that was for a number of reasons. One, for you all to have some to anchor on our progress; two, to earn credibility, et cetera. So this was never the end, the 1.1, quite the contrary. This is a milestone. We're really excited about the future.

I don't know if -- I don't contemplate giving long-term guidance again but we'll see. Certainly, I think we've been the most transparent management team in banking since we started this. If you go back and look at the September 1, 2021 call and we'll continue to be very, very transparent.

But I think that realizing the revenue and cost synergies that we discussed in the markets that we are with the capital that we have and the talent on the platform and our investment in technology and ops is just super exciting, and that alone will keep us really, really busy for a long time. The demand by new clients and current clients on the platform is quite extraordinary.

**Operator**

Next question is from the line of Jon Arfstrom with RBC.

**Jon Arfstrom**

Congrats on hitting or exceeding the 1.1 hurdle, I think that's notable. Just Rob, on the client selection topic, are you seeing anything from any kind of market disruption from the recent Texas consolidation?

There have been a lot of bank deals, I'm not sure if those banks have your clients, but are there more clients in motion right now?

**Rob Holmes**

That's a great question. So we are so front-footed and in market that we were already calling on all the prospects of clients that may be at a competitor bank anyway. So when we hear of an announcement of a transaction and we look at which clients we're calling on in terms of prospects. We focus like, hey, there may be a disruption in the market, you should be doing something different. Usually, we shouldn't be doing something different. We're already calling on those clients and prospects and frankly, winning those clients and prospects, and some of those banks have sold, not really interested in those prospects. So -- because we just -- I don't want to be negative at all whatsoever. But we're calling on all the high-quality clients and prospects in our markets already.

Now I will say on disruption in the market through M&A in the past, we've had a lot of great talent like a lot of great talent from banks that have been acquired.

**Jon Arfstrom**

The commitment question came up earlier in the call up 11% annualized. What does that signal to you?

Do you feel like demand for credit is accelerating? Is this increase from existing clients or new clients or something else?

**Rob Holmes**

I would say it's more timing than signaling anything else. Again we're not concerned about when high-quality clients and prospects borrow, but to be there when. So I think it's more of a timing thing than anything else, Jon.

**Matt Scurlock**

The only thing to add to that, Jon, as we mentioned in the comments, it's really important is that two years ago, three years ago, all of the fees in the Investment Bank were basically generated by new client acquisitions, which is different than anyone else in the market.

You are just now starting to see repeat business flow through the investment bank and contribute to fees, which is why we've made such a point on the call to emphasize the repeatability and increasingly granular nature of that line item, which obviously signaled a lot of client receptivity and adoption, but also suggest continued growth in those categories alongside a continuing higher floor of revenue.

**Jon Arfstrom**

Yes. That sounds good. I appreciate the granularity comment. I'll leave it there.

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**Operator**

There are no additional questions waiting at this time.

So I'll pass the call back to Rob Holmes, Chairman, President & CEO, for any closing remarks.

**Rob Holmes**

Just -- I don't usually do this, but I'll do it this time. I want to thank all the employees listening for their dedication and focus. It's been a long four years.

I hope you're very, very proud. Thanks all.

**Operator**

That concludes the call. Thank you for joining. You may now disconnect your lines.