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Texas Capital Bancshares, Inc.

Q1 2026 Earnings Conference Call

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CORPORATE PARTICIPANTS

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

Matt Scurlock - *Chief Financial Officer*

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

Operator

Hello, everyone, and thank you for joining us today for the TCBI First Quarter 2026 Earnings Conference Call. My name is Sami, and I'll be coordinating your call today. [Operator Instructions]

I'll now hand over to your host, Jocelyn Kukulka, Head of Investor Relations, to begin. Please go ahead, Jocelyn.

Jocelyn Kukulka

Good morning, and thank you for joining us for TCBI's First Quarter 2026 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. Today's presentation will include certain non-GAAP measures, including, but not limited to, adjusted operating metrics, adjusted earnings per share and return on capital. For a reconciliation of these and other non-GAAP measures to the corresponding GAAP measures, please refer to the 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. Our speakers for the call today are Rob Holmes, Chairman, President & CEO; and Matt Scurlock, CFO. At the conclusion of our prepared remarks, the operator will open up the call for Q&A.

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

Rob Holmes

Good morning. We enter this quarter with clear conviction in our strategy and the disciplined execution required to continue unlocking substantial value for our shareholders and clients.

First quarter outcomes reflect our shift in strategic focus to consistent execution and realizing the full potential of our investments. This quarter, we took decisive steps to align our organizational structure with that imperative.

I am pleased to announce strategic executive leadership appointments that further enhance our positioning for growth.

Jay Clingman will transition to Head of Private Bank and Family Office, following five successful years building and scaling our Middle Market and Business Banking franchises. Dustin Cospoer assumes the role of Head of Commercial Banking, overseeing Real Estate Banking, Middle Market Banking, and Business Banking. This shift positions the firm to drive enhanced client outcomes across Private Banking and Commercial Banking through more comprehensive and integrated solutions.

John Cummings has been named Chief Operating Officer, charged with driving sustained operational excellence and further positioning our platform for scale. Matt Scurlock, Texas Capital's Chief Financial Officer, will assume the role of President of Texas Capital Bank, further aligning financial, operational and business leadership across the organization.

We have also appointed Jeff Hood as Chief Human Resources Officer to ensure our talent strategy and culture align with our operational and commercial ambitions; he will be joining the Firm in early May.

Turning to the quarterly results, contributions across the Firm enabled another quarter of strong financial progress, as adjusted quarterly earnings per share increased 72% versus the prior year period to \$1.58 per share as total revenue increased 16% year-over-year to \$324.0 million, driven by 8% growth in net interest income and 56% growth in non-interest revenue.

Fee income from our areas of focus increased 59% year-over-year, reaching \$58.8 million in the quarter, a record for the Firm. Notably, all three focus areas delivered record quarterly fee income, demonstrating the platform's continued maturity and enhanced cross-functional strength. This is not a single-driver story; it reflects embedded momentum across advisory, capital markets, wealth and treasury services, all facilitated by excellent client banking coverage across the platform.

New client acquisition remains a fundamental driver to platform value. Each quarter, the Firm onboards clients who generate revenue across multiple service lines, a structural advantage that indeed compounds over time. Investment banking fees of \$42.3 million grew 89% year-over-year with broad contributions across syndications, capital markets, and sales and trading, reflecting our unique ability to deliver high quality client outcomes across a range of product solutions. Treasury product fees of \$12.1 million increased 14% as existing clients continue to leverage our differentiated payments capabilities, and new clients onboard at an accelerated pace. Wealth management fees also increased for the third straight quarter, reflecting building momentum that we expect to continue through the year. In total, fee income comprised 21% of total revenue versus 16% a year ago, demonstrating the success of our multi-year shift toward a more diversified, capital-efficient, and resilient revenue base. This trajectory directly reflects disciplined client selection and our ability to deepen relationships over time.

Our first quarter capital position highlights both the strength of our platform and the discipline of our capital management approach. Tangible book value per share of \$75.67 increased 11% year-over-year, marking an eighth consecutive quarterly record for this important metric. During the quarter, we repurchased approximately \$75 million of common shares at a weighted average price of \$96.82 per share, demonstrating our confidence in the franchise and our conviction that earnings momentum will continue. Tangible Common Equity to Tangible Assets of 9.87% exceeds peer levels, and CET1 of 11.99% remains well above our stated target of 11%, and internally assessed risk profile.

As previously discussed, we do not manage the firm to an expected economic scenario. We instead regularly evaluate potential macro-economic impacts on both credit quality and earnings capacity. Detailed reviews over the past few quarters include topics such as private credit, disruption from artificial intelligence, and exposure to data center supply chains, all of which confirm our adherence to disciplined client selection and diligent concentration management. Leading up to the recent conflict in the Middle East, we assessed the impact of rising commodities pricing on a series of client segments including commercial clients that rely on commodity inputs such as helium, urea, and alumina, as well as clients whose customers are potentially impacted by rising prices. While our assessment across these topical areas suggests impacts on specific clients are at this point tangential, we nonetheless continue to assume a credit posture in the reserve calculation that is increasingly reliant on downside scenario weighting.

We maintain a balance sheet that is intentionally positioned, carry capital and reserves that provide meaningful flexibility, and deliver a breadth of products and services that keep the firm relevant to our clients in any environment. That posture is a choice, one we have made consistently, and is the reason we approach periods of uncertainty from a position of strength and are front footed in the market.

Our earnings trajectory is sustainable, our balance sheet is strong, and our platform is positioned for durable growth. Today, we are pleased to announce the initiation of a quarterly common stock cash dividend, a tangible expression of our confidence in earnings momentum and our commitment to returning capital to shareholders while funding continued organic growth. This dividend reflects a mature platform, the strength of our capital position, and management's conviction in the long-term trajectory of the Firm.

Thank you for your continued interest in and support of Texas Capital. I'll turn it over to Matt for details on the financial results for the quarter.

Matt Scurlock

Thanks, Rob, and good morning.

Starting on slide 4 –

First quarter total revenue increased \$43.5 million or 16% year-over-year, driven by 8% growth in net interest income and a 56% increase in non-interest revenue.

Net interest income increased \$18.7 million year-over-year, to \$254.7 million, in line with our January guidance of \$250 to \$255 million which anticipated a modest linked quarter decline of \$12.7 million consistent with typical first quarter seasonality. Net interest margin expanded 24 basis points year-over-year to 3.43%, the sixth consecutive quarter of year-over-year expansion, and improved 5 basis points relative to the prior quarter.

Non-interest expense increased 5% year-over-year to \$213.6 million. On an adjusted basis, non-interest expense was \$212.2 million, an increase of \$9.1 million relative to the first quarter of last year, as expense base productivity continues to deliver anticipated revenue growth, and incremental new investments align directly with defined areas of capability build.

Taken together, pre-provision net revenue increased \$33 million or 43% year-over-year to \$110.4 million. Adjusted PPNR reached \$111.8 million, up \$34.4 million or 44%, marking the fifth consecutive quarter of year-over-year expansion.

Provision for credit losses of \$16.0 million was stable year-over-year, reflective of anticipated quarterly credit trends and management's continued assumption of economic scenarios materially more severe than consensus estimates. Net income to common was \$69.5 million, up \$26.7 million or 63% year-over-year and adjusted net income increased 65% to \$70.5 million. Strong financial performance, coupled with a disciplined multi-year share repurchase program, is consistently driving meaningful EPS growth for our shareholders. First quarter earnings per share reached \$1.56, up 70% year-over-year, with adjusted EPS of \$1.58, up 72% year-over-year.

Book value per share of \$75.71 and tangible book value per share of \$75.67 both increased 11% year-over-year, representing the eighth consecutive quarter end record high for the firm while the allowance for credit losses held relatively steady at \$331 million, or 1.32% of total LHI, and 1.81% of total LHI excluding mortgage finance.

Total LHI of \$25.2 billion increased 13% year-over-year and 5% linked quarter, with contributions across both the commercial and mortgage finance portfolios.

Period end commercial loans of \$12.5 billion increased \$1.2 billion or 10% year-over-year, driven by now consistent contributions across industries and geographies, and sustained quarterly increases in target client acquisition. Linked quarter, commercial loans increased \$336 million or 3%, representing the ninth consecutive quarter of commercial loan growth and continuing the trajectory of risk-appropriate and return-accretive portfolio expansion facilitated by our bankers across business banking, middle market, and corporate banking.

Commercial real estate loans of \$5.3 billion decreased 9% year-over-year and 2% linked quarter as payoff rates continue to outpace client appetite for capital deployment, with expectations previously provided for full-year average CRE balances to decline approximately 10% remaining intact.

Despite the expected seasonal linked quarter pull-back, average mortgage finance loans increased 32% year-over-year to \$5.2 billion, with period end balances increasing to \$7.0 billion, 33% above average for the quarter, and consistent with the annual pattern of origination volumes building at the end of Q1 heading into the spring and summer homebuying season. Enhanced credit structures now represent 67% of period end mortgage finance balances, up from 59% at Q4 2025, further improving the blended risk weighting of the portfolio to 53%. We anticipate that an incremental 5% could migrate to the enhanced structures over the next several quarters at which point we should reach the maximum near-term potential for the portfolio.

Total deposits of \$28.5 billion at quarter end increased 9% year-over-year and 8% linked quarter with reductions in interest bearing deposits associated with seasonal tax payments supplemented by modest levels of brokered deposits to support the temporary and predictable late Q1 growth in mortgage finance volumes.

Ending period commercial non-interest-bearing deposits increased \$76 million, or 2%, and are now up \$309 million since Q3 2025, with average commercial non-interest bearing remaining at 13% of total deposits for the quarter. Average non-interest bearing mortgage finance deposits of \$4.2 billion decreased \$288 million year-over-year, bringing the self-funding ratio down to 80% for the quarter, as 8 quarters of focused reduction clearly improved both the balance sheet resilience and earnings generation. We have now established a more balanced deposit base, and with a complete treasury offering increasingly embedded across our clients' platforms, and would expect the mortgage finance self-funding ratio to settle between 70-80% in the near-to-medium term.

The majority of mortgage finance non-interest bearing deposits are compensated through relationship pricing, which results in application of an interest credit to either the client's mortgage finance or commercial loan yield. The compensation attribution is evaluated on a periodic basis and determined that the 60% mortgage finance and 40% commercial split be updated to reflect the evolution of the mortgage finance business, resulting in a 70% mortgage finance and 30% commercial distribution beginning on the first of this year.

Average cost of interest-bearing deposits declined 15 basis points linked quarter, and 65 basis points year-over-year to 3.32%, as we continue to add value to banking relationships beyond simply price. This is in part evidenced by the 75% cumulative interest bearing deposit beta realized since the beginning of this easing cycle.

During the quarter, we completed a \$400 million fixed-to-floating rate senior notes offering due 2032, priced at a coupon of 5.301%. Proceeds from the issuance will be in part used to redeem the holding company's \$375 million fixed-to-floating rate subordinated notes in May, leveraging improved risk weighted asset positioning associated with the enhanced credit structures to fulfill holding company cash objectives with a lower cost instrument.

Current and prospective balance sheet positioning continues to reflect a balance sheet and business model that is intentionally more resilient to changes in market rates. Our modeled earnings at risk improved as expected this quarter, as market rates moved consistent with our previously communicated preferences for adding duration through the swap book.

During Q1, \$350 million in swaps matured with a 3.31% receive rate. These were replaced with \$500 million in receive-fixed SOFR swaps executed at 3.45%, with \$100 million becoming effective March 1st and the remainder becoming effective on April 1st.

Looking ahead, we will continue to exercise discipline in appropriately augmenting rates-fall earnings generation embedded in our business model but are at this point comfortable with our near-term positioning across a range of forward interest rate paths.

Net interest income of \$254.7 million declined \$12.7 million linked quarter primarily related to seasonal mortgage finance dynamics and fewer days in the quarter which were partially offset by quarter over quarter improvements in deposit costs. LHI excluding mortgage finance yields compressed modestly, consistent with expected SOFR-linked loan repricing.

Adjusted non-interest expense of \$212.2 million increased 5% from Q1 2025 reflecting continued investment in frontline talent across fee income areas of focus and increasing tech-enabled capabilities meant to both improve the client experience while positioning the firm for continued scale. Q1 adjusted salaries and benefits increased \$29 million to \$137.9 million, due to \$17 million of seasonal compensation, annual incentives reset, new front-line talent, and annual merit-based salary increases. For the remainder of 2026, we continue to anticipate approximately \$125 million of salaries and benefits and \$75 million of all other non-interest expense, both on a quarterly basis.

As Rob described, non-interest income increased 56% year-over-year and 15% linked quarter, setting several records for the firm. Non-interest income as a percentage of total revenue reached 21% in the quarter, up from 16% in Q1 2025, consistent with our strategic priority to increase non-interest income to revenue through expanded products and services delivered across our platform.

Investment banking and trading income of \$42.3 million increased 89% year-over-year, supported by broad-based contributions across the platform. Wealth management and trust fee income of \$4.4 million also represented a record high, increasing 11% year-over-year, supported by assets under management of \$4.4 billion, which increased 16% year-over-year from organic net inflows and favorable market conditions. Treasury product fees of \$12.1 million, which is a record high as well, increased 14% year-over-year, driven by continued client adoption and the expansion of payment and cash management capabilities that have driven north of 10% growth in gross payment volume in four of the last five years.

Total non-interest income is expected to be \$65 - \$70 million for Q2 with revenue attributed to investment banking and sales and trading contributing approximately \$40 - \$45 million.

The total allowance for credit loss including off balance sheet reserves of \$331 million, remains near our all-time high. When excluding the impact of Mortgage Finance allowance and related loan balances, the allowance was relatively flat linked quarter at 1.81% of total LHI, which is in the top decile among the peer group.

Net charge offs for the quarter were \$17.4 million or 30 basis points of LHI, and tied to previously identified credits in the commercial portfolio.

During the quarter, previously discussed commercial real estate multifamily credits were further downgraded as projects in lease up continue to require ongoing rental concessions to gain or maintain occupancy. Despite these net operating income influenced grade adjustments, material project specific equity and sponsor support give us confidence in the fundamental portfolio quality moving through the year.

Capital ratios remain strong and well in excess of our internally assessed risk profile, with Tangible Common Equity to Tangible Assets of 9.87% and CET1 ratio of 11.99%.

During the first quarter, the firm repurchased approximately 770 thousand shares for \$74.6 million at a weighted average price of \$96.82 per share, representing 127% of prior month's tangible book value per share. We remain committed to prudent capital deployment that balances organic growth and tangible book value accretion through share repurchase at levels that we view as attractive relative to the firm's intrinsic value.

Additionally, against the backdrop of more durable, and structurally higher levels of earnings generation across the platform, the Board of Directors has approved the initiation of a quarterly common stock dividend of \$0.20 per share, providing another tool to effectively manage capital on behalf of our shareholders.

For full year 2026, our overall outlook remains unchanged from guidance given in January as we continue to realize scale from multi-year platform investments. Our guidance accounts for one additional rate cut in December, with a Fed Funds rate of 3.5% at year end.

We anticipate total revenue growth in the mid-to-high single-digit range, driven by industry-leading client adoption and continued growth in our fee income areas of focus with full-year non-interest revenue expected to reach \$265 to \$290 million.

Anticipated non-interest expense growth in the mid-single digits reflects increased year over year compensation expenses tied to improved performance, targeted expansion in defined client coverage areas, and sustained platform investments.

Given continued economic uncertainty and our commitment to operating from a position of financial resilience, we reiterate the full-year provision outlook of 35 to 40 basis points of average LHI, excluding Mortgage Finance.

This outlook reflects another year of positive operating leverage and sustainable earnings generation.

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

Operator

[Operator Instructions] Our first question comes from Woody Lay from Keefe, Bruyette, & Woods.

Woody Lay

So the earnings momentum is really great to see. You mentioned some of the uncertainty in the Middle East and feel good about your clients. As it pertains to the investment banking pipeline, I know last year with some of the tariff noise, we saw some timing pushed out to the back half of the year. Do you expect a similar dynamic to happen here if this uncertainty lasts longer in the quarter?

Matt Scurlock

Woody, I'd start by saying that we're really pleased with our track record of finding the right solutions for our clients, which continued this quarter, whether that's bank debt or non-bank debt. So we were the #1 arranger of middle market syndicated credit in the country this quarter, along with arranging over \$11 billion of debt outside the bank markets for our clients. We raised over \$1 billion on our still new equities platform. So when you think about how we use the investment bank as a differentiator in the market, I think the coverage bankers are really doing a great job of leveraging the product partners to win new relationships, particularly with our target prospects.

And I think that's evidenced in part by over half of the investment banking fees outside of sales and trading that we generated in the last 6 months coming alongside new client acquisition in banking. So these record fee quarters continue to be underpinned by much more granular deal volumes. So these are not a couple of large transactions. These are a really durable, consistent approach to delivering service in the market. And we still feel really good about the \$40 million to \$45 million for the quarter and \$160 million to \$175 million for the full year.

Rob Holmes

I'd just add one thing, Woody. Matt, clearly articulated what I think are very good stats. But remember, we're not doing investment banking with a different set of clients. We're delivering investment banking products to our middle market and corporate clients because of the great relationships our middle market and corporate bankers have with those clients, which gives credibility to the investment bank and bankers when they come into the room, which I think is a differentiated part of this platform.

Woody Lay

Got it. That's helpful color. Maybe just shifting over to the mortgage finance business. The period-end loan balances were well above where they have been historically. I know that can be kind of volatile with timing. But just any expectation for average balances as we head into the second quarter?

Matt Scurlock

Yes, there was quite a bit of volatility in Q1 on 30-year fixed rate mortgages. We got as low as about 5.98% in the last week of February and then hit the high point in the last week of March at about 6.64%. If you'll recall, the full year guide of up 15% is predicated on \$2.3 trillion origination market and an average 6.3%, 30-year fixed rate mortgage, which while there could be some volatility along the way, we still think that's the right number for the full year. That gets you to about a \$6 billion full year average warehouse balance.

So we think that's actually the number for Q2 as well, Woody, that you'll have about \$6 billion of average mortgage finance volumes. You should end around \$7.2 billion, and that comes with about \$4.5 billion of average mortgage finance deposits. So that self-funding ratio should push down to around 75%, which should help the yield move from around 3.99%, I think, is where we were this quarter to somewhere around 4.05% in Q2.

And then the last thing I'd note on that, we've clearly completely restructured that business with now 67% of those balances residing in the enhanced credit structure, which is generating a significant amount of capital in that for the loans that are in the structure, it's a weighted average risk weighting of 30%, 53% of the entire portfolio. And then 78% of those clients do things with us in the dealer and 100% of them are on our treasury platform. So incremental volume in the mortgage finance business is significantly more profitable for us now than it's really ever been.

Rob Holmes

I would just suggest that new enhanced credit structure fundamentally changed the firm. It took a business that, by definition, was a subpar loan-only business and moved it in concert with a new product and service platform where we're doing many, many things with those clients, and we're lending to them through an dramatically less risk structure that allows for there to be a higher return and release capital. So it fundamentally changed the way we look at that business. It's more of an industry vertical than a mortgage warehouse.

Matt Scurlock

And just to put a couple of more numbers around that, Woody. I mean, over the last 12 months, we've grown loans by \$2.8 billion or 13%. And we've also bought back 6% of the company, \$228 million for inside of \$87 a share, while actually growing CET1 by 36 basis points. So this has been a critical factor, not just in structurally enhancing profitability, but enabling us to deploy capital in a variety of different ways.

Operator

Our next question comes from Casey Haire from Autonomous Research.

Jackson Singleton

This is Jackson Singleton on for Casey Haire. Matt, just wanted to start on NIM. Any color you can give us on the drivers heading into 2Q?

Matt Scurlock

Yes, Jack. Happy to walk through that. So we're really pleased with the ability to generate NII improvement across a range of interest rate environments. And as we've talked about in previous calls, that's really predicated on improved deposit repricing, which for us is a result of being more relevant for clients and just a deliberate move away from historically higher cost funding sources. That said, we have been pretty vocal on previous calls. We think the cost of funding for the industry is going to go higher over time. And our strategy and prospective resource allocation tries to contemplate the mix of businesses and services that we're going to need to earn an acceptable return against that reality.

So we have no additional reduction in deposit costs incorporated in the full year guide. And for Q2, we do anticipate slightly higher interest-bearing deposit costs to support volumes necessary to fund the seasonal predictable and temporary increase in mortgage finance, which we just walked through anticipated growth there. So as you see mortgage finance grow in the second quarter, that's obviously a lower yielding asset. So the yields moving from 3.99% to 4.05% where the yield on all other loans outside the mortgage finance business should stay around 6.65%. So that blends the overall loan yields down from 6.04% to, call it, mid-to-high 5.90s, which should push the margin down to 3.35%, 3.40% while seeing NII actually increase on the larger balance sheet to \$260 million, \$265 million.

Jackson Singleton

Got it. Okay. Super helpful. And then just one follow-up for me. How should we think about buybacks going forward, given CET1 is still well above 11%, but your TCE is now around 10%, which is around the soft target. And then you just announced the dividend, obviously. So just any color you can give into how management is thinking about buybacks for the rest of the year?

Matt Scurlock

Yes. We've got \$125 million of remaining authorization. We've shown propensity to buy back inside of 1.3x tangible, which is essentially 2- to 3-year out tangible book value per share. I look for us to be constructive around those prices. And then the decisions around buyback or the recently announced dividend, which Rob can talk to, were not influenced by potential changes in the regulatory capital treatment. But just for you, Jack, I mean, that's roughly 100 basis points of potential pickup in reg cap should you actually see these changes go through. So we're confident in our current levels of earnings generation, our capital position, our reserve levels of liquidity, and we're pleased to have another tool at our disposal to effectively allocate capital.

Rob Holmes

Yes. I would just say, I think we've proved to be pretty good stewards of allocating capital and distribution policy is something that's important to shareholders and us. And the dividend shows great confidence in the platform and our bankers and our earnings and prospects going forward as well as our capital and our risk posture. So we're really, really excited about just having another quiver and ability to add to the distribution policy as we go forward.

Operator

[Operator Instructions] Our next question comes from Anthony Elian from JPMorgan.

Mike Pietrini

This is Mike Pietrini on for Tony. So I guess I'll start. I'm curious if you guys could provide any color on what drove the quarter-over-quarter increase in NPAs. Any industry in particular that stood out? Anything you could provide on that would be great.

Matt Scurlock

Yes. Those are a few previously identified credits that we've been reserving for now for multiple quarters. They're continuing to go through work out in a way that we think is going to be maximally beneficial for the firm. So no industry concentration. There's one multi-fam, a couple of corporate credits consistent with our guide of 35 to 40 basis points provision for the year.

Mike Pietrini

Okay. Great. And then just one on expense. How are you guys sort of thinking of the split between comp expense and non-comp expense?

Matt Scurlock

Yes. When you strip out all the seasonal comp and benefit expense from Q1, it's about \$17 million and you add back in annual incentive comp accruals, impact of new hires, primarily in the fee income areas of focus and then just a few weeks of merit increases that were processed late March [inaudible]. I think that moves to \$125 million in Q2. And then all other non-interest expense, we continue to expect around \$75 million.

As a reminder, that's heavily focused on expenses associated with putting new capabilities in the market. So growth in occupancy, marketing and technology expense, which another way to think about that is that's expense in support of revenue. So we like \$200 million in Q2 and I think that's probably a pretty good number for Q3 and Q4 as well. And just as a reminder, that's enough to cover the high end of the revenue guide. So if you see revenue, particularly fees come in inside the high end of the guide, you would have some offset to non-interest expense.

Operator

Our next question comes from Jared Shaw from Barclays.

Jared Shaw

With the self-funding ratio guiding lower now, what does that mean for total end of period and average DDA balances as we look at next quarter?

Matt Scurlock

In aggregate, we like \$4.5 billion of average balances for mortgage finance for next quarter, and then you'll see that drift a little bit higher towards the end of the quarter. But the self-funding ratio, we think at this point, we've essentially rightsized our deposits in that particular segment with almost all of those clients having an appropriate treasury relationships. So Jared, I wouldn't anticipate the self-funding ratio really moving much lower. I think somewhere between 70% and 80% is probably the right way to think about it over the rest of this year.

Jared Shaw

Okay. All right. And I think you went through the NII guide or outlook for second quarter, was that \$260 million to \$265 million? Did I catch that right?

Matt Scurlock

You got it. You got it right. \$260 million to \$265 million, margin of 3.35% to 3.40%.

Operator

Our next question comes from David Chiaverini from Jefferies.

Max Asteris

Max on for David. Just a quick question around C&I and the pipelines. I know you attributed a lot of the growth to actual new client growth rather than just high utilization. So I was kind of hoping you'd talk around new client growth versus high utilization lines for fiscal year 2026.

Matt Scurlock

Yes. Utilization is up 1% linked quarter. It's down 2% year-over-year. We continue to sit around that 45% level. The majority of the growth continues to come from new client acquisition. Commitments are up \$2.8 billion, almost 15% year-over-year. And I think the important thing to remember on that, as we noted earlier in the Q&A, is that when we're acquiring these clients through the banking verticals we are doing our things with them. They're generating investment banking fees quite often at the outset of the relationship. Over 90% of them are doing treasury business with us, which is why you're seeing continued pickup in year-over-year treasury product fees. So the incremental profitability associated with new client acquisition in C&I is significant.

Rob Holmes

And to Matt's point earlier, when you arrange \$11 billion of debt for clients that's not bank debt but Term Loan B and high yield and private credit and close to \$1 billion of equity, new clients aren't showing up through loan growth. They're showing up in other ways at the firm.

Max Asteris

Got it. I appreciate it. Just a quick follow-up. Going to CRE loans, paydowns decreased again this quarter. Any color you can add to that? Any specifics that you expect for CRE declines for the rest of the year?

Matt Scurlock

I still think average balances are down at least 10%. So that's \$5.7 billion average last year, I think it's down at least 10% you could see \$100 million come off in each of the next 3 quarters. Credit availability in that space just dramatically outstrips demand. We are fairly focused on multifamily and industrial, have a great set of clients and the starts in those spaces are at the lowest levels in 10 years. So the reduction in those balances is nothing other than a reflection of our clients just transacting less and us having plenty of opportunities to deploy capital elsewhere, so not chasing lower yields on the marginal client.

Operator

Our next question comes from Matt Olney from Stephens.

Matt Olney

Most of my questions have been addressed. Just want to go back to capital. And I appreciate the commentary around the common dividend and the buyback. I'm just curious on the -- as far as M&A, where does M&A rank as far as the capital priority list this year?

Rob Holmes

Nothing has changed there. It's part of the menu on the strategy continuum. We continue to look at opportunistic alternatives in M&A, whether it's whole bank or otherwise, and we will continue to do that. So the great news, you're going to get tired of hearing me say it. The great news is we don't have to do anything. Our M&A transaction was a transformation, and we still have a ton of synergies, both cost and revenue that we can exploit and that will benefit the shareholders for a long period to come. So we're really, really excited about being in the position that we're in and not having to do something strategically to achieve our goals.

Operator

[Operator Instructions] Our next question comes from Jon Arfstrom from RBC.

Jon Arfstrom

A few follow-ups. Matt, you flagged technology spending is one of the drivers that you're focused on. Can you just talk a little bit about where you're spending in terms of tech and what some of the projects are that you have going there?

Matt Scurlock

Yes. I mean, Jon, we hope at this point, we've got a track record externally of effectively investing in a technology platform that yields either new products that generate revenue with the target clients or drive real structural efficiencies. And the mandate here is no different. So we continue to look aggressively at ways to automate, digitize, eliminate processes that can improve the client experience, improve the employee experience and decrease operating risk. So if we think about the year-over-year increase in tech spend, some of that is just capitalized project portfolio that should have the outcome of reducing expense or showing increase in revenue elsewhere on the platform. And then we are quite focused on figuring out ways internally to leverage AI. So you see some of that come through in the tech expenses as well.

Rob Holmes

Yes, Jon, I'll tell you like I grew a little frustrated a short period back about our progress with AI. And then we realized if you do AI really, really well, you've got to have a great data platform. We luckily have been building that for the past 5 years. It's called Big Sky. You heard us talk about it. We're in the cloud. It's a modern tech infrastructure. We have over 250 internal APIs that you need for AI. We have all the things that we need. And then in the past short period of time, we've made up a lot of ground. We have our own secure multi-LLM AI platform called Ranger. It's available to most of our employees. It was built by our tech team. About 80% of employees that have access to that have used it in the last 4 weeks. So it's widely used and widely adopted.

And then we have kind of a 3-pronged strategy on AI. Number one, we have firm-wide agents. Right now, they're in production for loan ops and fraud. We'll have credit agents to do portfolio reviews, et cetera, here pretty soon in the next quarter, great adoption by the credit team there. And we have over 170 processes that we're mapping for firm-wide agents as well. And what I mean by that is every company has process mapping, but they're done vertically, not horizontally. So they're done risk, tech, ops, frontline, product, service, but they're not done as a continuum like you onboard a loan across the entirety of the platform of origination, approval, onboard, monitoring, et cetera. So we've got about 170-plus processes that we'll look at either digitizing or improving or applying AI on top of that process mapping.

We also have Agent Builder, where we have about 64 employees on that who have created 280 agents that they want to use. We're tracking those agents. So if there's 8 employees that have all created the same agent, we'll create a better agent, retire the 7 and leave the single one and use it across the firm for adoption. And then lastly, we're selectively deploying third-party solutions. So an AI solution for certain things that we'll use as well. So we think that's the right way to move forward, and we're really, really excited about it, and we have the right embedded governance and risk management into every stage of development and deployment, which I think is important.

Jon Arfstrom

Yes. Okay. Good. That's very helpful. One question on the promotions, and congrats, Matt, on that. But the Private Banking and Family Office title, it says leading wealth capabilities as well. Is that the first time I see Private Banking and Family Office named in any of your kind of titles or documents. What's the plan there? And does that include wealth management, kind of where do you think you are in terms of the timeline for growing that business?

Rob Holmes

So that business was a legacy business here. However, like most things we found the infrastructure in it was really, really poor. So we had to go to a new custody. We had to improve the digital journey of clients. We had to restructure service. We had to change a lot of different things. Now that's in really, really good shape. We have one of the highest rated high-yield savings digital accounts in America. So we know how to digitally improve client journeys. Now our client journey on our private bank platform is as good as money center bank. I suggest you go try it. We can onboard you, Jon, if you want.

Our custody works right now. Our portfolios have always done really, really well competitively. I mean, or better than competition for like, like-risk portfolio. But now with the right infrastructure and the right client journey, we think we can really put weight behind that business and grow it. Just like -- remember, our bankers are already calling all these clients, these managers of these companies and the brand has already won their trust and confidence. So just like a middle market banker, that's the point of the spear for investment banking, now they can do the same thing for wealth and with much more confidence.

Jay has run a wealth business before here in Texas. And so it's something that he's familiar with and knows well, and he knows our clients, and he can partner really, really well with Dustin, who used to report to Jay at running commercial real estate, and they can really partner on that, with growing that business across the platform. So it's something we're really, really excited about. The family office, we're just excited about. That is new as of 6 months ago. We hired someone from a money center bank who ran that business on the West Coast to come here. There's more family offices in Texas than any other state in the country and more in Dallas than any other city in Texas. And so we think that's a real key component in differentiating both for the private bank as well as investment banking and treasury.

Jon Arfstrom

Okay. And then just one last one for me. On the dividend, I like that decision. But I'm just kind of curious how heavily debated was that at the Board level? Or do you think that was just a relatively easy decision and rational in terms of the life cycle of the company?

Rob Holmes

Well, the good news, Jon, is the Board has complete confidence in this management team and the people that work here. We've created a lot of credibility at the Board level, just like I hope we have at the investor level. We certainly have with the regulators by doing exactly what we said we'd do over a long period of time, both in the short and long run. New employees here, our bankers, middle and back office have delivered exactly what we said. And so when you have these conversations, it's on the backdrop of a lot of confidence and a lot of proven performance that gives them the confidence to fully support the dividend. And I would say that it was an important decision, but it was not labored.

Operator

We currently have no further questions. So I'd like to hand back to Chairman, President & CEO, Rob, for some closing remarks.

Rob Holmes

Just want to say thank you to everybody for dialing in and look forward to next quarter.

Operator

This concludes today's call. We thank everyone for joining. You may now disconnect your line.