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Texas Capital Bancshares, Inc.

Q2 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*

Jocelyn Kukulka

Good afternoon, and thank you for joining us for TCBI's Second 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 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 and 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

Thank you for joining us today. Texas Capital continues to deliver at a high level on behalf of our clients, with quarterly results once again pointing to strong and improving financial outcomes that come from consistent and focused execution of our differentiated strategy delivered by a talented group of employees across the entire Firm.

As you have heard us communicate in the past about the power of aligning the people on our platform to our strategic goals, I wanted to mention the recent appointment of Mo Jamous as Chief Digital and Information Officer. Mo joined Texas Capital in early July, and brings more than 2 decades of experience leading large-scale technology organizations across the financial services industry. He will be instrumental in further strengthening our platform, driving innovation, and advancing our technology strategy. Mo reports to me and serves as a member of the Operating Council.

Now turning to financial outcomes. Quarterly adjusted earnings per share increased 15% versus the prior year period to $1.88 per share, as record fee income in wealth management, treasury product fees, and investment banking, coupled with the strongest C&I loan growth quarter since the second quarter of last year, supported an 8% increase in adjusted total revenue.

Non-interest income increased $21 million, or 39%, year-over-year to $75.1 million, representing approximately 22% of total revenue compared to 18% a year ago, while fee income from areas of focus increased 28% year-over-year, reaching $60.5 million in the quarter, a record for the Firm. Advisory, sales & trading, wealth and treasury services each exhibited meaningful momentum this quarter, as our frontline continues to effectively earn and deepen target relationships through high quality execution, supported by a maturing product platform. These businesses are differentiated in the market, capital-efficient, and provide revenue stability through economic cycles.

Investment banking fees of $42.8 million grew 34% year-over-year as we continue to offer tailored, and highly strategic advice to the businesses we serve across our banking practice.

Treasury product fees of $12.5 million increased 8% as existing clients continue to leverage our sector leading payments capabilities, and new clients onboard at an accelerated pace with Q2 activity the highest since we began tracking it four years ago.

Wealth management fees also increased for the fourth straight quarter growing 38% year-over-year to $5.1 million, reflecting building momentum that we expect to continue through the year.

Our focus on fee income as an indicator of client relevance is not a substitute for disciplined credit underwriting and balanced portfolio management. Instead, it represents the intentional and communicated strategic evolution toward more durable, complete, and less rate-sensitive revenue sources that demonstrate the depth of our relationships and expertise of our bankers. These are structural advantages to our business model that will strengthen returns and compound franchise value over time.

Tangible book value per share increased 10% year-over-year to $76.98, marking the 9th consecutive quarterly record for this important metric. During the quarter, we repurchased approximately $24 million of common shares at a weighted average price of $97.63 per share, while also declaring and paying our inaugural common stock cash dividend, demonstrating confidence in the franchise and conviction that earnings momentum will continue.

Strong credit quality is foundational to our business, and our philosophy prioritizes being well-positioned for uncertainty rather than predicting it. We maintain disciplined oversight of client concentration and macro-economic sensitivities, applying a conservative reserve posture with downside scenario weightings remaining at their highest level since my arrival as CEO.

Taken together, our financial posture reflects a deliberate commitment to strength: meaningful capital and reserves, investments in scalable and resilient infrastructure, and a comprehensive range of products and services that serve clients through any cycle. We have designed our platform to grow efficiently while maintaining expense discipline and are creating a competitive advantage rooted in preparedness rather than prediction. Our earnings trajectory is sustainable, our financial foundation is solid, and our platform is built for enduring growth.

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.

Matt Scurlock

Thanks, Rob, and good afternoon.

The second quarter featured continued strong client acquisition, record fee income levels across our areas of focus, and sustained operating leverage. Total revenue increased $28.0 million or 9% year-over-year, driven by 3% growth in net interest income and a 34% increase in non-interest revenue compared to adjusted non-interest revenue a year ago.

Net interest income increased $7.0 million year-over-year, to $260.4 million, with a linked quarter increase of $5.7 million, as continued growth in our commercial businesses was augmented by typical second quarter seasonality associated with an appropriately sized, and structurally more profitable, mortgage finance.

Adjusted non-interest expense of $202.8 million increased $13.9 million or 7% year-over-year, reflecting disciplined and sustained investment in frontline talent, along with capabilities to improve client experience and position us for continued scale.

Pre-provision net revenue increased $13 million or 11% year-over-year to $130.0 million, and adjusted PPNR reached $132.7 million, up $12.2 million or 10%, marking the sixth consecutive quarter of year-over-year expansion.

Provision for credit losses of $18.0 million increased $3 million year-over-year, consistent with anticipated quarterly credit trends and management's continued assumption of economic scenarios that are materially more severe than consensus estimates.

Second quarter net income to common was $80.6 million, up $7.6 million or 10% year-over-year, with adjusted net income to common increasing 9% to $82.7 million. Second quarter earnings per share reached $1.83, with adjusted EPS of $1.88, up 15% year-over-year.

Book value per share and tangible book value per share both increased 10% year-over-year to $77.01 and $76.98, respectively, marking the ninth consecutive quarter-end record high for the firm. This sustained growth in both earnings per share and tangible book value reinforces the combined impact of disciplined capital management, strong earnings retention, and opportunistic share repurchases at levels we view as attractive relative to intrinsic value.

Our loan portfolio continues to reflect intentional capital deployment and disciplined client acquisition, consistent with our stated objectives. Period end commercial loans of $13.0 billion increased $1.2 billion or 10% year-over-year, driven by broad contributions across industries and geographies. Linked quarter, commercial loans increased $507 million or 4%, representing the tenth consecutive quarter of commercial loan growth and reinforcing the strength of our risk-appropriate and return-accretive origination capabilities.

As previously communicated, we continue to see commercial real estate payoff rates outpace client appetite to finance new projects, as loans decreased 3% linked quarter to $5.1 billion, down 9% year-over-year. While we remain highly supportive of our long-standing client base, we do expect industry-wide capital supply to continue dramatically exceeding demand over the near term, resulting in a full-year average CRE balance decline of approximately 12%.

The typically strong seasonal mortgage finance environment was further supported by late Q1 rate-driven increases in mortgage volumes, which when coupled with our enhanced product offering and advisory capabilities, resulted in average mortgage finance loans increasing 18% year-over-year to $6.3 billion.

Enhanced credit structures now represent 69% of period end mortgage finance balances, up from 67% at Q1 2026, resulting in a blended risk weight of 54% for the portfolio. As previously guided, we expect the portion of the portfolio that resides in these structures to remain around 70% for the rest of the year. This effort has resulted in 113 basis points of CET1 benefit since we started in Q4 of 2024, enabling ongoing disciplined loan growth and strategic capital return while both improving portfolio risk-adjusted returns and regulatory capital ratios.

Total deposits of $28.9 billion at quarter end increased $2.8bn or 11% year-over-year and $395 million or 1% linked quarter as continued growth in commercial client deposits was supplemented by modest levels of brokered deposits supporting the temporary and predictable Q2 growth in mortgage finance volumes.

Ending period commercial non-interest-bearing deposits increased $238 million, or 7% linked quarter, and are now up $546 million or 18% since Q3 2025, with average commercial non-interest bearing remaining at 13% of total deposits. Average non-interest bearing mortgage finance deposits of $4.5 billion decreased $316 million year-over-year, bringing the self-funding ratio to 71% for the quarter, as 9 quarters of focused reduction have clearly improved both balance sheet resilience and earnings generation. We have now established a more balanced deposit base, and with a complete treasury offering increasingly embedded in our client's platforms, we would expect the mortgage finance self-funding ratio to settle between 70-75% in the near-medium term.

Average cost of interest-bearing deposits increased 6 basis points linked quarter, but were up only 1 basis point when excluding the temporary impact of elevated CD balances used to support the seasonal surge in mortgage finance volumes.

Current and prospective balance sheet positioning continues to reflect a 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 consistently with our previously communicated preferences for adding duration through the swap book.

During Q2, we executed $400 million in 2-year receive-fixed SOFR swaps at 3.87%, which became effective June 1st, maintaining our target interest rate sensitivity while realizing anticipated rate increases contemplated in the curve.

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

Adjusted non-interest expense of $202.8 million increased 7% from Q2 2025 reflecting sustained investments in client-facing coverage, increases across tech-enabled capabilities and a temporary fluctuation in legal and professional fees associated with new revenue initiatives and legacy problem credit resolution, both of which should subside in the second half of the year. Q2 adjusted salaries and benefits increased $4 million year-over-year to $122.8 million as investment in frontline talent aligned to our fee generation initiatives continues to ramp consistent with stated revenue objectives. 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.

Non-interest income reached $75.1 million, up 34% as compared to prior year adjusted non-interest income and up 8% linked quarter, marking another record for the firm and demonstrating the scale and durability of our diversified revenue model. Non-interest income comprised 22% of total revenue this quarter, which is up from 18% in Q2 2025, highlighting our continued success in expanding fee-based revenue streams and deepening client relationships across our platform.

All three areas of focus delivered record fee income this quarter, with each contributing meaningfully to overall earnings growth. Investment banking and trading income of $42.8 million increased 34% year-over-year, supported by broad-based contributions across the maturing platform. Wealth management and trust fees of $5.1 million increased 38% year-over-year, as assets under management expanded 15% to $4.8 billion. Treasury product fees of $12.5 million increased 8% year-over-year, driven by both sustained new client onboarding, and our advisory-based approach, which continues to propel client adoption of our integrated platform.

Total non-interest income is expected to be between $70 - $75 million in Q3, 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 $333 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 1.78% of total LHI, which is in the top decile among the peer group.

Net charge-offs for the quarter were $16.1 million, or 26 basis points of average LHI, and were evenly split between previously identified credits in C&I and commercial real estate.

Criticized loan trends are generally evolving as anticipated. Notable reductions in substandard loans mostly offset fluctuations in special mention caused by cash flow related pressures on previously discussed commercial real estate multifamily credits, and macro-driven demand or operating margin pressure causing grade changes in C&I.

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 12.07%.

During the second quarter, $375 million of holding company subordinated debt was repaid with proceeds from a senior notes offering during the first quarter. Our share repurchase program remains active and during the quarter we repurchased approximately 239 thousand shares for $23.6 million at a weighted average price of $97.63 per share, representing 128% of prior month’s tangible book value per share. We are committed to disciplined stewardship of shareholder capital, balancing investment in organic growth with strategic share repurchases.

For full year 2026, our overall performance outlook remains unchanged from guidance given in January, but now includes one rate hike in December, with a Fed Funds rate upper limit of 4.0% 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. Full-year non-interest revenue is expected to reach $270 to $290 million, which is a modest increase in the lower end of the guidance.

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 results in 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] Your first question comes from Michael Rose with Raymond James.

Michael Rose

Matt, maybe we could just start on the margin was a little bit lower than the guided range that you guys provided last quarter. I certainly understand that you reiterated the revenue outlook. But can you just walk us through some of the puts and takes and maybe how we should think about beginning margin in the third quarter, just given some of the seasonal factors that you continue to talk about over time?

Matt Scurlock

Happy to do that. Would say the NII and margin dynamics were largely consistent with expectations. I think we were in a basis point of the guide on mortgage finance yield and 2 basis points of the guide on loans, excluding mortgage finance.

The earning asset mix, though, did change a little bit relative to expectations. With higher average mortgage finance loans pulling down overall LHI yields and then higher temporary funding associated with supporting that increase, pushing up the interest-bearing deposit costs. We noted in the prepared remarks, but a really important thing to call out the cost of interest-bearing deposits, excluding brokered, was up 1 basis point this quarter. So that means that our quarterly increase is not a permanent characteristic of the deposit base.

So as you think about Q3, the guide contemplates net interest income growing to $265 to $270 million, you'll see likely another slight seasonal step-down in margin into the low to mid-3.20% range, as that loan portfolio is even more heavily weighted toward high risk-adjusted return, but lower yielding mortgage finance assets, and then we'll leverage the brokered channels to just effectively match fund that. I think the mortgage finance self-funding ratio likely stays intact around 71%, which means you can think about mortgage finance loan yields staying relatively flat somewhere around that 4.06% range. And then LHI yield, excluding mortgage finance, we think also stayed pretty flat, so somewhere in the low 6.60s%. When you blend those two things together with the higher average balances in mortgage finance, you could see the blended loan yield come down a little bit. And then just maybe rounding out the aggregate earning asset mix. We've seen about $200 million of cash flows come off the securities portfolio and reinvested at a hair over 5% and then would think about average cash balances in the high single digits for the quarter.

Michael Rose

All right. I think you were prepared for that one, Matt. I appreciate the color. Maybe just as my follow-up, just wanted to touch on credit. A nice step down in nonperformers this quarter, but the criticized and classified did continue to move higher. Anything to read into that? Or is that just more things working itself through the process? Just trying to better understand the credit backdrop.

Matt Scurlock

Yes. So the criticized levels did move slightly higher as the resolution of identified problem credits and substandard only partially offset those increases in special mention.

Michael we noted for a few quarters now, the largest category within that classification is multifamily commercial real estate where you're still seeing borrowers having to extend rental concessions to maintain occupancy, which puts us down net operating income and results in that temporary grade migration, even regardless of material equity in the deal or the quality of that sponsor.

There's no industry geographic or product specific patterns associated with that increase in C&I special mention, just got a handful of companies that are experiencing macro-driven pressure on demand and operating margin. I'd say, importantly, we've contemplated some migration in the full year provision outlook, which we still feel quite comfortable with between 35 and 40 basis points of loans, excluding mortgage finance.

Operator

Your next question comes from Matt Olney with Stephens.

Matt Olney

I want to go back to investment banking and trading. Those fees looked really nice in the second quarter. Any more color on what you saw in 2Q? And then I heard the outlook as far as the third quarter, staying in that range. Any more color on just the pipelines that you can share that you're assuming?

Rob Holmes

I'll just comment real quick. There's broad contributions from the investment bank from syndications, capital solutions, good quarter for M&A this quarter as well as sales and trading. So the investment bank is performing as anticipated. It's important to note, I think that 33% of the investment banking fees that didn't come from trading came from new relationships, either from the commercial or the corporate bank, just as intended.

And then the fun fact is all of our closed M&A transactions year-to-date have been us selling middle market privately held Texas based family-owned companies. So feel really good about the investment bank, the maturity of the product and the platform, our origination capabilities, but just as importantly, our distribution capabilities.

Matt Scurlock

The only thing I'd add is that 1/3 of those also resulted in new wealth opportunities, which if you think about the trajectory on wealth management Matt, we think that's a really large opportunity for us in the back part of this year, but certainly moving into 2027. You're effectively banking these clients, providing investment-making products and services and then high-quality private wealth service in return.

Rob Holmes

And then on the pipeline for the third quarter that you asked about, I think Matt, again, said between $40 - $45 million was the expectation. Highly confident that we will do that. And the business is getting easier to predict as we mature and the fees are repeatable, more sustainable, refinancings of existing clients and more granular all. So I feel really good about the quality of the pipeline as well as the size.

Matt Olney

Okay. That's great commentary. I appreciate that. And then I guess, switching gears over to the loan growth. Good to see the commercial balances continue to build. On the commercial real estate, I heard the commentary about just continued payoff activity, expectation to be down 12% this year. I guess given the commentary, it sounds like you expect that to remain a headwind for a while. Any more color on kind of where or when you expect that to eventually bottom?

Rob Holmes

Well, I'll take just one quick question. I'll let Matt comment on this. But we're in a decade low in originations from our highest and best clients, which that's just a fact. And we're banking the best clients in our markets. We have no intention of expanding the client base in that segment. We do very, very well through cycle on credit with those clients. There is irrational behavior by banks in this market given the decade-plus low of originations. And fortunately, we built a platform where we can allocate capital to the best places to do so with our clients. And so we are not forced to participate in irrational behavior.

Matt Scurlock

Totally agree with Rob's commentary, Matt. And then just specifically, we do think that balances could end up at $4.6 billion or so by the end of the year, with roughly equivalent payoffs over the next 2 quarters. And then I appreciate you commenting on the C&I loan growth, which at this point, feels like a pretty sustainable trend. To Rob's commentary, that loan growth oftentimes shows up with investment banking fees at origin, and then very predictably results in a broader relationship with the integrated treasury platform. If anything, the 16% annualized while certainly strong, it underrepresents the amount of capital that we raised for clients in the quarter because we had another $10 billion of debt raised outside of bank markets and $3 billion of equity.

So we are very pleased with the ability to use our differentiated platform to go onboard those clients that we want. And then to Rob's point, not have to chase for risk-adjusted returns to fill the balance sheet target on an individual loan category in this instance being commercial real estate.

Operator

The next question comes from Janet Lee with TD Cowen.

Janet Lee

Good afternoon. So you mentioned that the interest-bearing deposit cost in the second quarter was elevated because of the mortgage finance seasonality with brokered being included there. So if that were to unwind a bit in the third quarter, what is a good interest-bearing deposit costs to model off of versus the second quarter average of 3.38%?

Matt Scurlock

Because the mortgage finance balances are going to increase linked quarter—so expectation for average balance in the third quarter is $6.5 billion against $4.6 billion of mortgage finance deposits—you're likely to see a slight increase in average brokered deposits from the second quarter to the third quarter. $1.8 billion to, call it, $2.6 billion or so, which would give you probably a couple of basis points more of increase in overall deposit cost, which that, coupled with a larger percentage of the loan mix weighted toward those lower-yielding mortgage finance loans, is what pushes that margin temporarily into, call it, the mid-to-low 3.20s%.

That reliance or approach by which we're sort of directly funding that temporary surge with the brokered deposit channel will subside as you get toward the latter half of the year. Specifically, the fourth quarter where you should see average balances somewhere around, call it, $500 million of brokered CDs. That's a result of us continuing to grow interest-bearing associated with our commercial clients, which is up $850 million year-over-year as well as the continued growth in commercial noninterest-bearing. But for the third quarter, that's how I think about the deposit cost, up a few basis points off that 3.38% because you have higher average brokered CD balances.

Janet Lee

Hopefully, I didn't miss it, but could you just comment around the contemplated pace of buybacks given you have plenty of room to go down to 11% CET1 target?

Matt Scurlock

We've got $102 million left and have shown that we're really interested in buying inside of 1.3x tangible, or what we think of as 2-to-3-year out consensus tangible book value per share. We repurchased a little north of $20 million this quarter. Then in part because of all the progress on migrating mortgage finance into the enhanced credit structure over the last 12 months, we've been able to grow loans by $1 billion, repurchase over $230 million of the stock at $90.62, that 6% of total shares outstanding, while actually growing CET1 [ratio] 62 basis points. So those are levels, Janet, where you'll see us be a little more interested.

Operator

Your next question comes from Ben Gerlinger with Citi.

Ben Gerlinger

It seems like Matt in your prepared remarks, you emphasized fees and total revenue. I get it is working higher and it's kind of probably a lag to NII. But then again, you also highlighted that wealth management, you have that flywheel opportunity for a lot of your clients. As you think down the road, overall fees—is there an area where you would like that to be as a total revenue?

Rob Holmes

Sorry, but we had a little bit of a hard time hearing you, I apologize. We said when we started out that we were going to go for fees as a total percent of revenue of 15% to 20%, and we're at 22% today. That could go a lot higher. The client adoption to the products and services across the entirety of the platform is broad and does not seem to be abating. So I do think that you'll continue to see fee income grow.

Fee income and the treasury service fees this quarter obviously came down as a percentage, but still sector-leading over time with really good continued client adoption. I think we onboarded more treasury service clients this quarter than we have since we started counting that 4 or 5 years ago.

So the records kind of continue, and we don't see it abating, but I think there's plenty of room to grow fees. There's plenty of banks with this platform much larger than us that have fees over 30% of revenue.

Ben Gerlinger

Yes. No, I agree. I mean directionally getting there. And then picky, have you repurchased any in the month of July quarter-to-date?

Matt Scurlock

No, not yet. I think we've been pretty clear on the level that we like to repurchase. So inside of 1.3x, you'll see us be active. Above 1.3x, we're going to use capital for other uses at this point.

Operator

Your next question comes from Casey Haire with Autonomous.

Casey Haire

Wanted to touch on expenses. So looking at the guidance here, it implies a little bit of leverage versus the second quarter run rate in the back half. And then obviously, you guys are feeling pretty good about the investment banking side of things with the guide up in the third quarter here. Just wondering, do I have that right? And how are you able to show expense leverage when investment banking is ramping?

Matt Scurlock

Yes. The full year noninterest income guide was $265 million to $290 million. We pulled up the bottom of the range to be $270 million to $290 million in the full year investment banking guide, $160 million to $175 million. We're at roughly $85 million year-to-date. We kept that investment banking guide, but gave you a $40 million to $45 million number in aggregate. So that's investment banking as well in sales and trading, those two lines in the press release combined, is the outlook for this quarter, which would be pretty consistent with what we've done in the first 2 quarters of the year.

So specifically on noninterest expense, the salaries and benefits are generally trending as anticipated. Other noninterest expense this quarter came in a little bit higher given some temporary increases in legal and professional associated with problem credit resolution and then putting some new revenue initiatives into market.

Those should both move down, Casey, in Q3, which puts overall expense not related to salaries and benefits back into that $75 million a quarter range, which is where we've historically guided. And then based on the current revenue guide, we do think salaries and benefits is going to continue to trend to $125 million, which gets you about $200 million of noninterest expense in each of the next 2 quarters to round out the year.

Casey Haire

Got it. All right. And then just wanted to revisit sort of the Texas market. Obviously, a lot of M&A. You guys talked about disruption. Just any color you can provide in how you're benefiting that in terms of loans and deposits and talent acquisition.

Rob Holmes

I would suggest we're benefiting from it in every one of the areas that you mentioned. We have a tiered client and prospect target market that we go after every single day, whether there's disruption at competitors through M&A or not as well as bankers tiered and mapped as well. I would say that there has been disruption, though, which has allowed a greater amount of progress in client migration as well as some talent acquisition.

We've had a record number of client onboardings every year since the transformation started, and you continue to see that. I'm not sure which is really being driven by the disruption or just good client coverage by our bankers, good discipline, client tiering and the mandate.

Operator

Your next question comes from David Chiaverini with Jefferies.

David Chiaverini

So wanted to follow up on loan growth. I heard you about the commercial real estate down 12%. And maybe I missed it. Did you comment on C&I loan growth outlook and expectations there?

Matt Scurlock

We generally don't give specific C&I loan growth guidance because we don't have specific C&I loan growth targets, for Rob's just completed commentary. We do have objectives on acquiring the clients that we want to associate ourselves with. That said, I think the balance sheet trajectory, at least in the loan portfolio, does feel pretty well established, by which you continue to deliver this sort of 10% year-over-year growth number in C&I, with the noted reduction in CRE in aggregate for the year. We think your low-to-mid-single digits average LHI loan growth that excludes mortgage finance. Then 15% in mortgage finance, which when you blend those together, it gets you to mid-to-high single-digit loan growth for the overall portfolio.

David Chiaverini

Perfect. And then on the net interest margin outlook. You mentioned about the third quarter, 3.20% to 3.25%. Is this a good medium-term guide as well beyond the third quarter?

Matt Scurlock

It's tough to try to give margin guidance in current interest rate environment, 90 days out, let alone a couple of quarters out. Maybe what I would anchor you to David, is just the known adjustments in our earning asset mix that are going to occur. So you will see the portion of the loan portfolio that's comprised of that lower-yielding mortgage finance asset, which is against roughly 250 basis points inside of loans, excluding mortgage finance.

You'll see that come down a little bit in the fourth quarter. And then you'll also see a reduction in the brokered CDs where roughly $2.6 billion that we anticipate in average balances in the third quarter is likely to come down to something around $500 million in the fourth quarter, both of which obviously would be supportive of margin.

Operator

Your next question comes from Stephen Scouten with Piper Sandler.

Stephen Scouten

I just wanted to follow back around on interest-bearing deposit costs, maybe ex brokered. I know you said it was really about 1 basis point of increase this quarter, ex the brokered and maybe a couple of basis points higher next quarter with additional brokered. So based on that, is it fair to say you don't think there's much interest-bearing deposit cost pressure ex the higher brokered that you'll see from the mortgage finance? And just kind of wondering if that's correct, kind of what you're seeing on a competitive basis and maybe the irrationality is more on the loan side, not the funding side?

Matt Scurlock

Rob should definitely follow up on this. I think we've been pretty outspoken in our views that just the cost of liquidity in general is going to go higher for the industry. Those are structural considerations, not things that have happened in the last 90 days, which is why we've tried to build a model that's less reliant on the spread between gathered deposits and made loans, and instead has the way to effectively serve clients and generate a return through fees.

This isn't necessarily a surprise to us. Specific to your question on linked quarter performance, yes, the interest-bearing deposit costs were up a basis point. Is it up a basis point next quarter, maybe. We don't see a significant wave over the next 90 days pushing overall interest-bearing deposit costs higher. That increase from, call it, high 3.30s% to around 3.40% or low 3.40s% in the third quarter is almost entirely because of that pickup in average brokered deposits, from about $1.8 billion average to, call it, $2.6 billion in the third quarter. Rob, do you want to talk about cost of liquidity?

Rob Holmes

I would just say that since my arrival, we have said deposits will become more and more commoditized across the entire industry. It's not a Texas Capital issue or constraint. Since the GFC, if you go back and you look at cost of deposits, so that's 20 years, that trend has not slowed and it's happened almost every single year in the out years. It's still very much a trend.

Matt's been saying that's going to happen since the day he became CFO. Echoing my comments, we've built a platform for that reason. One, to be relevant to clients. And so that you could build a moat around that obstacle and still earn a great return on your capital. So that's what we're executing. The strategy addresses that, but that issue won't abate.

Stephen Scouten

Going along with your desire to diversify the platform, you guys had announced this strategic relationship with Phoenix Merchant Partners. Just wondering if you could comment on that and give a feel for, I guess, maybe the motivation there, strategic implications, kind of what the size of that relationship could be, if that's material in any way as we think about that announcement?

Rob Holmes

Yes. Thanks for that. So that's been a long time coming. We needed to find the right partner. We feel like we have. The size is to be determined and we will see how successful it is. But as Matt said, we placed $10 billion of debt this quarter that wasn't bank debt. I think it was $11 billion last quarter, $29 billion last year. High-yield institutional or private credit.

As Matt said, we don't have loan growth targets here at the bank. Our bankers go in and we don't say what we want from the client. [We don't say] we want to give you a loan and take your deposits. We go in and solve a capital need, a capital solution for them -- we're agnostic whether it's bank market or private credit. This allows us to participate in the private credit that we place or not. But when we do that, we generally get treasury business as well as investment banking. We think it's a great medium to just expand that opportunity. We're really, really excited about and happy about the partner that we chose.

Operator

Your next question comes from Anthony Elian with JPMorgan.

Anthony Elian

Does the NIM declining to the low-to-mid-3.20s% in 3Q, do you think that represents a trough before the mortgage seasonality reverses in 4Q?

Matt Scurlock

Yes, we do think that's the low point in 2026. Generally it's difficult to lay down a margin guide for anything beyond about 90 to 180 days, but we would expect the margin to move higher off of that in the fourth quarter.

Anthony Elian

Okay. And then more broadly on deposit competition, can you give us some color what you're seeing on that front? And how you're thinking about deposit beta if we do get a hike later this year?

Rob Holmes

I would just say, look, total deposits, I think Matt said, are up 11% year-over-year. Noninterest average [excluding mortgage finance deposits] up 5%. We're winning high quality deposits from our clients, it is our clients' deposits, which I think is really, really important. Remember, deposits come and they go, and it depends on the client's life cycle, too. We're retaining the deposits that we're getting.

The attrition is very, very low compared to what I've seen in the past, in terms of losing PxV and treasury business. When you are doing PxV with the client, you get deposits over 70% of the time, and we're winning that. So I don't see the deposit growth really slowing down even though it may seem modest at those percentages.

Matt Scurlock

Just specific to your beta question, Tony, if we're able to lag hikes to the extent that we did in the last hiking cycle, that would be beneficial to our expectations for margin. Our current margin expectations incorporate that modeled beta, which is roughly 80%, which as you know, we definitely outperformed that in the last hiking cycle. Then we're able to get more on the way down than was modeled in the IRR sensitivity.

Operator

Your next question comes from Jared Shaw with Barclays.

Jared Shaw

I heard your comments on the competitive pressure on CRE and pricing and structure. Are you seeing any similar trends on the C&I side as a result of some of the bank consolidation that's been going on? Or is it really more focused on the CRE?

Rob Holmes

We have seen it on C&I, some very irrational behavior, both on price and structure. We have won deals or had the option to win deals that we have walked away from and will continue to do so. We want to bank with clients that want a responsible credit structure.

And then when the clients trip under the current structure they chose, and they call us back, I'm sure that we'll entertain it again. But there is definitely irrational behavior in both price and structure that we will not participate in. As Matt and I talked when this first started, I told Matt we're going to gain share during bad times, not good, because we're not going to participate in the good rallies. We're gaining a lot of share, but not nearly as much as we could if we wanted, and we're being very prudent with client selection and structure.

Jared Shaw

Okay. All right. And then on capital, I see the target greater than 11%. I guess, longer term or more philosophically, how do you feel about sort of capital ratios given your business model? Do you look at 11% as sort of like a floor or a target? And is there – given your business model, do you see a need, maybe keep capital levels at a higher level than other peer targets or not necessarily?

Rob Holmes

Well, I kind of grew up under a very financially conservative boss for a long, long time. We feel very, very good about having “too much capital.” The guide is to have 11% or more CET1. I would say we're very happy with the guide. We like carrying too much capital, it will benefit us.

We also, importantly, are very conservative in terms of provisions, et cetera, too, we feel that that's a part of being very well capitalized, so don't forget that. So I don't think it's our business model that dictates that. As we improve the liabilities over time, and we become more confident with the maturity of the business model, maybe we'll take that down over time. But right now, it's serving us very, very well, and we're making a lot of money on it because we're talking to CEOs and they're onboarding new business, and they're very, very comfortable. They never ask us about our financial condition or anything else because I see how much capital we carry. So it serves a purpose, and it's helping us win business.

Operator

Your next question comes from Woody Lay with KBW.

Wood Lay

Just one follow-up on my end on the capital side. I was just interested in your thoughts on M&A and if that could be a potential use for capital going forward?

Rob Holmes

For sure. It's certainly part of the capital menu that Matt and I talked about many, many times. Invest in the businesses, invest in new products and services. We now have a dividend. We have bought back 16.5% of the stock since the beginning of the transformation. And then whole bank M&A is certainly something that we're happy to look at and consider. As you know, we have a lot of people on the platform that have done M&A for a living, and that's something that we do look at, whether it be whole bank M&A or different capabilities. We sold a $3.5 billion business. We bought a loan portfolio. We will continue to look at it. But again, it's got to be a rational, prudent, appropriate transaction, which to date, obviously, we have not found.

Operator

Your next question comes from Peter Winter with D.A. Davidson.

Peter Winter

Rob, could you provide an update on how you're thinking about profitability going forward, maybe if you have any updated targets. When I look at the ROA, it has been below the 1.2% target the past 2 quarters.

Rob Holmes

Well, I don't know that we've given guidance on profitability going forward. So I would just tell you that what we have said is stacking tangible book value quarter after quarter is very, very important and something we'll continue to do and something we've done as well or better than anybody in the country these past 5 years. So I would focus on that.

And as the platform continues to mature, you've seen over time, we've certainly made the place more efficient. That journey continues, revenue continues to go up with record investment banking, treasury and private wealth fees. And I would just look at positive operating leverage as a goal of the firm over time, and the rest will take care of itself.

Peter Winter

Okay. And then, Matt, just one quick housekeeping. There was a $5 million increase, $4.8 million to be exact, in other fees. Was there something unusual this quarter?

Matt Scurlock

No. If you're looking at the press release, some of that gets ingested into treasury product fees in the presentation. About half of it is either treasury product fees or credit-related fees and then about half of that is marks on equity portfolio. So it will bounce around a little bit quarter-to-quarter, Peter, but nothing other than those things to call out.

Operator

Your next question comes from Jon Arfstrom with RBC Capital Markets.

Jon Glenn Arfstrom

Most of the questions have been covered, but I did want to go back to the treasury product fees that you talked about earlier, and you talked about record onboarding. What do you expect for growth in the fee side of it? I know that there's a flywheel effect as well, but do we expect a step function type growth at some point like the other fee businesses? Or is this like a high single-digit type growth fee line?

Rob Holmes

We're really, really excited about the treasury platform we built. We actually think we're one of the best dollar payment banks in the country. We have embedded banking, we have APIs. We have real-time payments. We have real-time receipts. We have digital onboarding that's very unique and a differentiated client journey to onboard with us. We can do it faster most banks in the country. We even have a good global bank now, we can make cross-border payments with ease. That's really coming alive for us.

We continue to be really good. We also have a very different culture, like the people in the sales and trading floor, sell treasury. Our treasury partners are consultants. They don't sell anything. They consult, they whiteboard, which brings more complex clients to the platform, where we have more business per client because they're just more complex treasury back offices.

So I don't see any abatement to that business. We're becoming more the primacy bank for all of our clients than ever before. That's when you get the treasury. So I think you'll see that continue. That's going to always be about who we are. It's very, very important to us. Our bankers understand treasury, our TMOs understand treasury, our investment bankers understand treasury, more than any place I've ever been.

Jon Glenn Arfstrom

Yes. Okay. That makes sense to me. And then this is kind of random Rob, but you wanted to change your incorporation from Delaware to Texas about a quarter ago. When the results came out, you didn't quite make it. Can you still get that done over time? How important is it to you as a company? And do you go back in the year? What's the status of that?

Rob Holmes

Well, that's a great question, Jon. Look, I think it is important. I think if you look at what the Texas Legislature did last year, with codifying the business judgment rule and making some changes to shareholder proxy proposals and derivative lawsuits and other things, the Texas Business Court up and running. It would be advantageous for our shareholders, for our shareholders, for us to be in Texas. And we got 44% of the vote. I think we would have gotten the vote, had our shareholder base been more retail as opposed to institutional, where they listen to irresponsible, uninformed proxy advisers. And I'll go on the record and say it's a problem, and they have too much power. So we'll do it again, and we look forward to continuing educating our shareholder base, and we look forward to becoming incorporated in the great State of Texas.

Operator

This concludes the question-and-answer session. I'll turn the call to Rob Holmes for closing remarks.

Rob Holmes

Just want to say thanks, everybody. There's a lot of great questions and a lot of people on the line. So thank you, and look forward to making sure we have another great quarter.