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Texas Capital Bancshares, Inc.

Q3 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 Texas Capital's Third 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 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. This was the most complete quarter in the Firm's history, a comprehensive reflection of the multitude of strategic actions taken to build a unique platform resilient to changing market conditions and positioned for sustained growth. Enabling this set of outcomes was intentional, and is the product of disciplined capital management, thoughtful portfolio construction, careful risk oversight, and a culture motivated to build something enduring that matters for our clients, and shareholders. Our client-centric approach means we not only engage the market with superior insight and execution, but also maintain a commitment to financial resilience ensuring our focus remains squarely on our clients' needs, not ours. The multi-year evolution of the Firm's operating model means client successes translate into a balance sheet and income statement that are increasingly working in tandem to deliver financial performance regardless of the macro backdrop.

The breadth of this quarter's performance is evident in financial results that feature new records achieved across many key metrics. Quarterly adjusted earnings per share reached a record $2.35, an 8% increase year-over-year and 25% increase relative to the previous quarter. Record net interest income and record fees drove record adjusted total revenue of $357 million, and record adjusted pre-provision net revenue of $157 million, both of which increased 5% year-over-year. Finally, adjusted net income to common was $103 million, another record for the firm, with firmly established multi-quarter trends and strong pipelines suggesting continued momentum to finish the year.

Non-interest income increased 19% year-over-year to $82 million, representing 23% of total revenue, and supported by 14% year-over-year growth in our strategic fee income areas of focus - led by the third consecutive quarter of record income for both investment banking and trading income and treasury product fees. Consistent multi-year growth in these critical offerings reflects the evolution toward a more diversified and capital-efficient business model, and demonstrates how serving clients across multiple touchpoints makes Texas Capital a uniquely relevant financial partner.

Investment banking and trading income of $46.7 million grew 13% year-over-year and 9% linked quarter, supported by higher capital markets and sales and trading revenues.

Treasury product fees of $12.9 million, up 16% year-over-year and 3% linked quarter, grew as we continue to deepen primary operating relationships and serve clients with integrated payments capabilities.

Wealth management fees increased 14% year-over-year to $4.6 million. We remain confident in the trajectory of this offering, and see tremendous opportunity to replicate the proven playbook used in payments and investment banking to invest in, and grow, the Private Bank platform in 2027.

Underpinning this notable fee growth is sustained new client acquisition, driven by our market-leading capability to access the right type of capital for clients across geographic markets and industry verticals. We have invested significantly in our client-facing talent, doubling the number of bankers between 2021 and 2023, and are again aggressively recruiting high-quality professionals to further expand client coverage, and deliver product expertise. Our financial outcomes validate this approach. The peer-leading growth we have achieved demonstrates not only that we have earned the right to compete and win in our markets, but that we know how to execute at scale. This track record of sustained performance across multiple cycles is the foundation upon which we continue to build.

Supporting this next phase of growth is the continued evolution of our technology and delivery infrastructure, with specific emphasis on enhancing data capabilities and optimizing process design to unlock the full operational benefits of AI. We reorganized technology leadership and team structure to prioritize product delivery and data infrastructure. The restructuring expenses and legacy software write-offs incurred this quarter reflect our commitment to converting these long-standing investments into measurable productivity gains. This repositioning enables us to accelerate delivery cycles, improve system stability and scale, and materially enhance our operating model productivity. Our approach demonstrates a disciplined capital allocation strategy whereby we can make technology investments more productive by consolidating around the capabilities that matter most.

Finally, during the quarter, we exhausted our 2026 buyback authorization, acting opportunistically during periods of market dislocation to repurchase approximately $103 million of common shares at a weighted average price of $96.99 per share. The Board has authorized an additional $200 million repurchase, which will be prudently leveraged to return capital to our shareholders while also investing in continued organic growth.

This quarter underscores that every part of Texas Capital can deliver on its strategic objectives, drive sustained growth and attractive risk-adjusted returns. We are operating from a position of maturity and strength, with substantial capital and liquidity, disciplined risk management, and an earnings profile built to perform across market environments.

As we move through the final quarter of 2026, our priorities remain consistent: deepen client adoption across the platform, realize the benefits of our investments, thoughtfully invest against our proven mandate, and deploy capital with a focus on lasting franchise value. Our achievements to date give us the confidence and capacity to increase investment in growth, with the foundation from the transformation enabling progressively shorter earnback periods on each incremental dollar deployed. Our results reflect how far we have come; our opportunity is to continue to build on that progress and accrete value for our clients and shareholders.

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

Matt Scurlock

Thanks, Rob, and good afternoon.

Third-quarter total revenue increased $16.3 million, or 5%, year over year to $356.6 million, supported by growth in net interest income and a 19% increase in non-interest income compared to a year ago. Linked quarter, total revenue increased $21.1 million, or 6%, driven by strong firm-wide execution and continued realization of multi-year investments in an increasingly diversified and resilient operating model.

Net interest income increased $3.2 million year over year to $275.0 million, which is a record for the firm. Net interest margin improved 16 basis points linked quarter to 3.44% and remained slightly below the 3.47% reported in the third quarter of last year.

Adjusted non-interest expense declined 2%, or $3.2 million, linked quarter to $199.6 million, reflecting an increasingly productive operating model and a return to more typical levels of legal and professional fees. Non-interest expense of $203.9 million included $4.3 million of restructuring expenses related to the reorganization of technology delivery and the write-off of select legacy software.

Pre-provision net revenue increased $2.9 million, or 2%, year over year to $152.7 million. Adjusted PPNR of $157.0 million increased 5% year over year, marking the 9th consecutive quarter of expansion. This performance demonstrates the Firm's ability to translate investment in areas where we have a unique right to compete and win into attractive, defensible, and growing returns.

Provision for credit losses was $17.0 million, consistent with our expectations for near-to-medium-term credit trends and our continued assumption of economic scenarios that are substantially more severe than consensus forecasts.

Adjusted net income to common of $102.7 million increased 2% compared to a year ago, while adjusted EPS reached $2.35, up 8% year over year and 25% linked quarter. Both measures represent quarterly profit records for the firm.

Book value per share and tangible book value per share both increased 3% year over year to $75.13 and $75.09, respectively, supported by earnings generation and a reduction in shares outstanding. Both metrics declined modestly linked quarter, reflecting lower AOCI as well as a proactive approach to share repurchases executed within our previously communicated pricing parameters.

Period-end commercial loans of $13.4 billion increased $1.5 billion, or 13%, year over year and $422 million, or 13% annualized linked quarter as targeted client acquisition continues to drive broad-based commercial loan growth. This marked our 11th consecutive quarter of growth in average commercial loan balances, which when coupled with a disciplined and well communicated capital allocation framework, results in commercial loans now comprising 56% of total loans, compared to 28% at year-end 2020 when adjusting for divested businesses.

As communicated throughout the year, commercial real estate payoffs continue to significantly outpace client appetite to finance new projects, with period-end balances decreasing 7% linked quarter to $4.8 billion, down 11% year to date and 16% year over year. The late-quarter increase in the 10-year rate slowed realized payoff rates in the portfolio, with rate-driven industry stress likely to weigh on fourth-quarter transaction volume. Despite the potential for a modest slowdown in payoffs, limited new fundings associated with historically low construction starts over the past 24 months are likely to result in continued downward trajectory for both commitments and funded balances, which we expect to end the year around $4.4 billion.

Average mortgage finance loans of $5.8 billion increased 5% year over year but declined $540 million, or 9%, linked quarter, as the rate environment changed dramatically mid-quarter and the industry reacted to mortgage rates approaching 7% for the first time since the summer of 2024. Period-end mortgage finance loans declined $942 million, or 15%, linked quarter to $5.4 billion, departing from the historical seasonal pattern of higher third-quarter balances on both an average and period-end basis.

Enhanced credit structures represent 76% of period-end mortgage finance balances, up from 69% at Q2 2026, resulting in a blended risk weight of 48% for the portfolio. As the portfolio contracted during the third quarter, a modest mix-shift occurred whereby more eligible balances were represented in the enhanced structure than in prior periods. Over the medium term, we expect the portion of the portfolio that resides in these structures to settle closer to 70%.

Total deposits of $27.7 billion at quarter end increased $210 million year over year and decreased $1.2 billion, or 4%, linked quarter, as brokered deposits declined $1.6 billion in response to the decline in mortgage finance loans. Deposits excluding both mortgage finance non-interest bearing deposits and brokered interest bearing deposits increased $777 million, or 4%, linked quarter to $22.4 billion.

Average commercial non-interest bearing deposits increased $134 million, or 4%, linked quarter and $250 million, or 7%, year over year to $3.7 billion, with average commercial non-interest bearing remaining at 13% of total deposits.

Average non-interest bearing mortgage finance deposits of $4.2 billion declined $726 million year over year, bringing the self-funding ratio to 73%. Given the current outlook and observed seasonality, we expect the mortgage finance self-funding ratio to increase to approximately 85% in the fourth quarter.

The average cost of interest-bearing deposits increased 2 basis points linked quarter to 3.40%. Excluding seasonal brokered deposits that will largely roll off in Q4, the cost increased 1 basis point to 3.34%, reflecting our ability to compete on value rather than price.

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.

Our current and prospective balance sheet positioning reflects a business model deliberately designed to be more resilient to changes in market rates. We place equal emphasis on through-cycle earnings generation and loss-absorbing tangible common equity, while maintaining strong capital levels and flexibility.

During Q3, we executed $600 million of 2-year receive-fixed swaps against 1-month SOFR with a weighted average receive rate of 4.16%, managing interest rate sensitivity within our desired range while realizing the higher rates embedded in the forward curve. Additionally, on the back of historic rate moves in October, we executed another $200 million of 2-year receive-fixed swaps against 1-month SOFR, with a weighted average receive rate of 4.72%.

While we are comfortable with our near-term positioning across a range of potential interest rate scenarios, we will continue to actively manage the portfolio in support of established business and risk objectives.

Adjusted non-interest expense of $199.6 million increased 5% compared with Q3 2025, while declining 2% from last quarter. The year over year increase primarily reflected higher salaries and benefits expense as resources are increasingly aligned to forward revenue generation, while the sequential decline was

largely driven by the normalization of legal and professional fees following temporarily elevated levels last quarter.

As Rob discussed, we are increasing investment in front-line talent across both banking and fee-generating businesses, translating into faster growth in salaries and benefits expense over the coming quarters. For the fourth quarter of 2026, we anticipate total non-interest expense of $205 to $210 million, comprised of $125 to $130 million of salaries and benefits expense and approximately $80 million of all other non-interest expense.

Non-interest income reached $81.6 million, up 19% year over year and up 9% linked quarter. It represented 23% of total revenue, up from 20% a year ago, while combined fees from strategic areas of focus reached another quarterly record at $64.1 million, up 14% year over year and 6% linked quarter.

Investment banking and trading achieved its third consecutive record quarter, with fee income of $46.7 [million] increasing 13% year over year and 9% linked quarter. All components of the business contributed to this result, with particular strength in advisory, capital markets, and sales and trading. Wealth management and trust fees of $4.6 million increased 14% year over year as assets under management expanded for a 6th consecutive quarter to $4.8 billion. Treasury product fees of $12.9 million increased 16% year over year as client adoption of the cash management, commercial card and payments platform continues at a peer-leading pace.

Third-quarter other non-interest income included $6.0 million of gains attributable to several strategically aligned non-marketable equity investments.

Total non-interest income is expected to be $70 to $75 million for Q4, with revenue from investment banking and sales and trading contributing approximately $45 to $50 million.

Total allowance for credit losses, including off-balance-sheet reserves, increased to $335.8 million, while the ratio of total ACL to loans held for investment increased to 1.39%, reflecting a modest reserve build consistent with full-year expectations. When excluding the impact of mortgage finance allowance and related loan balances, the ratio was flat linked quarter at 1.78%, which remains in the top decile among the peer group.

Net charge-offs for the quarter were $14.5 million, or 24 basis points of average LHI, down 10% from $16.1 million last quarter. Net charge-offs were primarily related to previously identified C&I credits across a diversified set of clients with exposure to consumer demand.

Criticized loan trends are generally evolving as anticipated as select commercial real estate multifamily credits remain impacted by cash flow related pressures, and macroeconomic pressure on consumer demand and operating margins are driving select grade migrations 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 9.85% and a CET1 ratio of 12.2%. Cash and securities remain in line with target levels at 23% of assets and the loan-to-deposit ratio is stable at 87%.

During the quarter, we repurchased approximately 1.05 million shares at a weighted average price of $96.99 per share, representing 126% of the prior month's tangible book value per share, exhausting our authorization. The Board approved a new $200 million repurchase plan, which we will manage prudently and opportunistically, consistent with our historical approach to capital management.

For full-year 2026, our performance outlook is modestly improved from guidance given in January. Our rate outlook is based on the current market forward curve and assumes an additional 25 basis point increase in December, bringing the upper bound of the federal funds target range to 4.25% at year-end.

We now anticipate adjusted total revenue growth in the high single digits compared with adjusted total revenue of $1.26 billion in 2025, driven by sustained client adoption and continued peer-leading growth in our fee income areas of focus. Full-year non-interest income is expected to reach $295 to $300 million, which is also modest increase in the previously provided guidance.

We anticipate adjusted non-interest expense growth in the mid-to-high single digits compared with $768.9 million in 2025, reflecting higher performance-related compensation and accelerated, targeted front-line hiring across banking, payments, wealth, and investment banking.

In the midst of persistent economic uncertainty, our commitment to operating from a position of financial resilience is unwavering. We reiterate the full-year provision outlook of 35 to 40 basis points of average LHI, excluding mortgage finance.

Taken together, this outlook supports another year of positive operating leverage as we invest in the next phase of growth from a foundation of financial strength.

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

Operator

[Operator Instructions] Your first question comes from the line of Matt Olney with Stephens.

Matt Olney

I was going to ask more about the details behind investment banking and the results here. Any more color you can share about the third quarter results? And then I heard Matt's outlook as far as expectations for banking in the fourth quarter. Curious how sensitive you think the pipeline is to higher rates, especially as we move into 2027?

Matt Scurlock

Yes. Thanks, Matt. I mean we're pleased with the third consecutive quarter of record fee income across all areas of focus with a strong pipeline supporting $70 million to $75 million of estimated fees in Q4, which sits on top of $45 million to $50 million in investment banking and trading fees. That obviously helps us push the full year guide up to $295 million to $300 million or approximately 30% year-over-year growth. That includes 40% year-over-year growth in investment banking, which is up noticeably from the $265 million to $290 million that we started the year with on total non-interest revenue.

You know this, Matt, we're not focused on specific product distribution, but instead trying to use what we think is a differentiated platform to uniquely solve problems for our clients, which is why the metrics that we most frequently emphasize are things like 40% of investment banking fees, excluding M&A and sales and trading come from new banking relationships, 90% of the time we extend credit, we're going to get core treasury and then all M&A to date has been with Texas privately held companies.

We try to call that stuff out mostly because we think it matters a great deal when trying to assess the forward earnings profile of the firm and emphasizes quality, durability and interconnectivity of the businesses that we're running.

We've said quite a bit that at some point, we'll be large enough in investment banking where what's happening in the broader market will more directly dictate our ability to deliver fees. We're not quite there yet. We've seen a lot of momentum across every area of the platform, and we're both optimistic for Q4 and excited about what's coming in '27.

Matt Olney

Okay. Appreciate the color there, Matt. And then can you also talk about where the bank is within the investment cycle of attracting new producers and just overall investments? You made significant investments a few years ago, and now we're seeing the benefits of that.

How would you characterize the level of recruitment and the level of investments that you talked about a few minutes ago? And then can you talk about the prospects of the positive operating leverage in 2027 in light of this kind of ongoing recruiting effort?

Rob Holmes

Hi Matt, it's Rob. I'll take that. So as you said, one of the goals when we first got here was to redistribute the mix of our employee base, frankly, we had way too many back and middle office and very few front office bankers to deliver the platform when we got here. We spent the last 5 years doing just that, both in terms of headcount and dollars invested increasing towards the front line. Given the strength of the platform in every line of business and the consistent performance and our views of the future and the client responses, we are going to invest in the front office again.

We have been investing very deliberately and carefully, but now when we invest, the time to dollar of revenue is much quicker. The return is much faster. Remember, when we were doing it earlier, we had to build the back and the middle office and risk control, compliance, technology and everything that came with it. Now we're adding front-line bankers and the return is much, much faster. So we're excited about the brand, the talent we're able to attract, and we're going to do it across the entirety of the platform, as Matt said in his remarks, from commercial banking to corporate banking to investment banking to wealth and all the products and services, treasury and beyond. So every one of the parts of the firm that are client-facing is performing well, and we're excited about the opportunity to invest. You asked about where we are in the cycle, and I'd say we're early days.

Matt Scurlock

Embedded in that 4Q expense number is us beginning to realize or onboard new talent. So we pushed up the full year expense number, including Q4 to $205 million to $210 million, which puts the full year growth at 6.6% to 7.2%, just to be as precise as possible. And that obviously has much higher fees than we originally guided to and notably more front-line talent.

If we underachieve on fees or adding talent, that expense number will be lower. If fees outperform or and/or we have the opportunity to add even more high-performing, high-quality talent, then you could see that expense number trend to the higher end.

Operator

Your next question comes from the line of Janet Lee with TD Cowen.

Janet Lee

So if we bake in the $70 million to $75 million of fees for the fourth quarter and look at your revenue guide for 2026, there's a bit of a range there could be for the net interest income for 4Q, just given multiple pieces going around with the mix shift into the higher yielding commercial loans and reduced mortgage finance balances and broker deposits. How should we think about the 4Q NII and NIM trajectory from here?

Matt Scurlock

$270 to $275 of NII and 3.45 to 3.50 on margin.

Janet Lee

Got it. Going forward, should we expect in a rising rate scenario, Texas Capital benefits from here?

Matt Scurlock

Definitely. So maybe the best way to start on that, Janet, is just to work through the components of the deposit base, and then we can talk a little bit about how we're approaching managing the balance sheet as rates move higher. So to start, we just continue to effectively grow really high-quality deposits that are tied to broader commercial relationships with $850 million of growth in commercial interest-bearing and $320 million of growth in commercial non-interest bearing over the last year.

So that's roughly $1.2 billion of high-quality deposit growth relative to $507 million of LHI growth, excluding mortgage finance. Which enables us to continue this multiyear journey of reducing deposits that we view as higher cost or lower liquidity value, which obviously benefits our cost of funds, which while higher in aggregate than some other banks is definitely consistent with peer when you look at it against like deposit categories. And then in our view, we think much more valuable because it's almost always tied to a broader operating relationship where we're proactively helping our clients manage their liquidity.

And then we have been very consistent and vocal in our view that the cost of liquidity is going to move structurally higher over time. So we believe that having 80% is appropriate up-beta to use for risk-driven interest rate modeling. But our actual expectation is that betas are going to trend closer to 60% or so over the first few hikes and every 10% of beta drives about 1% of interest rate risk. So another way to think about that is that a 60% beta incorporated in the guidance, our disclosed IRR sensitivity and up 100 goes to 3.7% versus the 1.7% using an 80 beta.

And then you're acutely aware of how we position the broker deposits to support that temporary and predictable increase in mortgage finance. And that accounted for 6 basis points of total interest-bearing deposit cost in Q3. That likely goes to 0 in Q4 as brokered deposits on average and ending both land below $200 million. So excluding brokered, our cost of interest-bearing deposits was flat June to September. So have been able to effectively realize the value in the deposit base. That then sets up how you think through just broad balance sheet and margin management. And candidly, we're pretty proud of how that's played out this quarter against a rate backdrop that was dramatically different than was contemplated on the call in July.

So as that curve steepens, a couple of things happen that are unique to our balance sheet. So if you start with mortgage finance, the 10-year moved about 50 basis points higher during the quarter, which pushed mortgage finance loan volumes down 11% relative to our guide on the 2Q call. And there was obviously a time where that type of move in mortgage finance would have been pretty catastrophic for Texas Capital. But we completely changed the way that we manage that business by pretty dramatically narrowing the client base positioning our capital behind those where we can earn the best return, moving away from a margin-only business into one where we have a complete relationship, very similar to how we operate the rest of the platform. 83% of those clients now are active in our dealer, 100% of them do treasury business with us.

We've also dramatically contracted our exposure there. It was almost 40% of total loans when Rob arrived in the third quarter of 2020, and it's consistently been down around 20% over the previous few quarters. And then finally, we clearly adjusted the risk weighting that's attached to those by migrating 76% of those balance into an enhanced credit structure. So average risk weighting is sub 50% this quarter. So in an environment where the average balance on mortgage finance is down $700 million relative to our expectations, our actual margin increased because of a smaller composition of a lower yielding asset.

And then we're able to deliver sufficient value to those clients across fee-generating businesses to deliver the right revenue profile. And then we have a lot of capital that's created that enables us to buy back shares at levels that are as low as we've seen all year.

And then maybe just the last thing I'd note on the balance sheet and happy to take any follow-up question about topics because I know it's an important one, is 95% of our loans are naturally variable rate and tied to the 1-month portion of the curve. So when the curve steepens, it's an opportunity for us to selectively utilize swaps to realize the hikes that are embedded in that rate outlook, which reduces our interest rate risk today and then supports earnings and capital generation should rates decline. Those are generally going to be 2-year swaps, which means any unrealized loss or associated reduction in tangible book value is going to be recovered pretty quickly. And because we're operating with best-in-class tangible common equity, tangible asset ratios, we've got a lot of capacity to repurchase shares at any AOCI-related discount that's going to reverse in 2 years. I'll pause on that, Janet, and answer anything else you want to know about margin or balance sheet.

Operator

Your next question comes from the line of Woody Lay with KBW.

Woody Lay

I wanted to start on investment banking revenue. And as you all called out, it's coming in much better than you initially laid out coming into the year. And I was just curious, are there specific tailwinds you can point to? Is it because of this -- is it because of new hires come on and they're able to hit the ground running quicker than what was able to happen a couple of years ago? I would just love your thoughts there?

Rob Holmes

No, Woody, it's simple maturity of the platform, more stability. Our bankers have been in front of our clients longer. The brand has accreted a great deal. We have credibility in the markets. We get really tough deals done. We're good on the easy deals. We brought very unique deals to market, bonds sub $500 million in the high-yield space where people said you couldn't get it done. Our bankers are good and the market is recognizing it. It's nothing like adding an inordinate amount of bankers already or anything else. This is simply the strategy working and maturing.

Woody Lay

Got it. And then maybe as that relates to this next wave of investment, the brand value has really proven out relative to the hiring when you were hiring a couple of years ago. So how does that change in the brand awareness impact the forward hiring strategy?

Rob Holmes

I was just laughing how you put the question. Look, the strategy is the same. We didn't compromise on hiring 2 or 3 years ago when we went to market. It took more explaining and it took maybe longer courtship, if you will, but we didn't ever compromise. Otherwise, we couldn't be doing what we're doing today. The people that remain on the platform from earlier have contributed greatly. I'm looking at a lot of them in the room today, and the new hires are obviously working out very, very, very well. So there was no compromise even working with a worse brand.

Today, it's different. Today, people call us. Today, we have thousands of people applying for 40 spots in a junior program. And by the way, the world, if you hadn't noticed, is kind of coming to North Texas and Dallas. And so that's making it easier, too, going forward in my mind. So we're really excited about this next wave. Nothing's changed. We won't compromise. We'll be sure that they're like-minded. We have shared goals and that they'll act with great integrity and always put the client first.

Woody Lay

Got it. All right. Well, that's all for me.

Rob Holmes

And Woody, the investment banker has got to sell treasury.

Operator

Your next question comes from the line of Michael Rose with Raymond James.

Michael Rose

Just wanted to circle back to the mortgage finance business. Really nice to see the enhanced credit structures go up. Just wanted to get some thoughts on where that could head over the next year? And then how should we think about how sustainable that 85% self-funding ratio is?

And then maybe if I can just throw in where just given the higher for longer rate backdrop, how should we at least initially contemplate average balances as we initially think about next year?

Matt Scurlock

A little too early to think about average balances for next year. The sequential pickup in balances that reside in the structure was actually just driven by lower industry volumes, which disproportionately go to the largest providers, which are often those that for us reside in that structure. As industry volumes contract, the self-funding ratio is likely to stay around that 80% to 85% for at least the next few quarters. 85%, Michael, is a great way to model that for Q4. And then just in general, on mortgage finance, just to give you some ways you could think about modeling it into '27 just in terms of balances.

So that change in 10-year over the last 90 days pushed our full year outlook from $2.3 trillion origination market, which sat on top of a 6.3% 30-year fixed, driving $6 billion in full year average balances to now a $2 trillion origination market on a 6.55% 30-year fixed, which to get there, you actually need 30-year fixed rate mortgages to come down a little bit from where they are today and get closer to 7[%] which makes our full year outlook go from around $6 billion to around $5.5 billion and the fourth quarter get down to about $4.5 billion.

So we went through Janet's question, I think, great length to describe the impact that has on the balance sheet. And it impacts pretty significantly, Michael, how we think about hedging and how we think about positioning tangible common equity in terms of deployment through the buyback.

Rob Holmes

And then I think the only other part of your question was the enhanced credit structure, how much further do we have to go on that. And I wouldn't expect that percentage to go up anymore.

Michael Rose

Okay. That's helpful. Maybe just one other question for me...

Matt Scurlock

Yes. The linked quarter -- go ahead, Michael.

Michael Rose

I was just going to switch topics, so if you got more to say, go for it.

Matt Scurlock

No, I said that the linked quarter pickup is not because a significant number of new clients are migrating to the structure. It's because industry volumes are flowing to the clients that we already have in the structure. So that's a good number for you to think about moving forward.

Michael Rose

Understood. Maybe just one follow-up separately. I know you guys don't guide to loan growth or anything like that, but really good to see kind of the pickup in commercial loans. Just as we think about the CRE balances, when do you guys think that bottoms? I know it's kind of persisted a little bit longer than maybe you thought earlier in the year, but just trying to get a better sense for when that headwind kind of inflects?

Rob Holmes

I'm going to let Matt take that. But before, I'll just comment on the loan growth. I mean, we've got pretty sustained loan growth in C&I for a long, long time. And the total exposure to C&I loans have gone from high 20s, I think, when I got here to now 56%. So loan growth has never been a problem. We're lending to the right clients with the right client selection. And there is a high demand on the balance sheet, but we'll continue to be very, very discerning. So anyway, with that, Matt.

Matt Scurlock

Yes. The commercial real estate balances actually finished the quarter slightly higher than the revised guidance as that late quarter move in the 10-year delayed some pending transactions, but the trend is definitely downward. Expectations for year-end are $4.4 billion, which would put the full year average around $5 billion. And I would just reiterate comments that we made on the last call that we're really pleased with the quality and the depth of the client relationships that we serve in that sector. And we're built to support their plans through a cycle.

And over the past 24 months, they just haven't been particularly active, and we just don't need to chase non-relationship growth at cyclical low risk-adjusted returns in order to hit a balance sheet growth target. So I think that the trend is down, countervailing forces would potentially be higher rates, which makes transactions more difficult to get done. But I think that the balance sheet trends with growth in C&I and modest reduction in CRE are going to be with us for a little while.

Operator

Your next call comes from the line of Jared Shaw with Barclays Capital.

Jared Shaw

I guess, any color or commentary around what you're hearing from your energy customers? Is there any noticeable uptick there in energy or related industries?

Rob Holmes

Look, the energy CEOs who I speak with frequently, they're not really happy about the high price of energy. They're worried about demand, et cetera. And so I think they remain very cautious. It's a different view than one that would be intuitive given the rise in the price.

Jared Shaw

Okay. So you're not seeing them legging in a little more here with forward pricing staying higher?

Rob Holmes

No.

Jared Shaw

Okay. And then any color on the migration in criticized and classified that you can provide?

Matt Scurlock

Yes, Jared, it's Matt. I mean, as you know, we're perpetually stressing the portfolio for any potential industry geographic or asset specific weakness. And today don't really have anything distinct to point to other than just select instances of margin pressure or softening demand, which is pushing up C&I special mention. The criticized levels as a percentage of total loans did move higher linked quarter, but still well within our historical experience and established credit guidance.

The LHI or criticized LHI has been between 3% and 4% for 2/3rds of the last 3 years. And net charge-off ratios continue to sit 20 to 25 basis points with provision between 35 and 40 basis points. And the only other thing I would note on credit is that we're still very reliant on a set of economic assumptions that is notably more severe than the consensus outlook. So we feel pretty well positioned.

Rob Holmes

I would just add to that. For 6 years, we've taken more provisions than peer. Our provision rate, excluding mortgage finance, is still highest of peer. We've stayed within our credit costs guidance for 6 years. We've experienced provision all 6 of those years and worked through it exactly as intended and expected. And so this is no different. And we stand by the credit cost guidance that we gave.

Operator

Your next question comes from the line of David Chiaverini with Jefferies.

David Chiaverini

I wanted to ask on the deposit side, nice growth in average non-interest bearing deposits, excluding the mortgage finance at 7% year-over-year. Can you talk about the drivers of this? And how do pipelines look there in the outlook?

Matt Scurlock

David, we've had mid-teens year-over-year growth in treasury product fees for as long as...

Rob Holmes

Since the first quarter of '22.

Matt Scurlock

I think as long as either one of us can remember and eventually, as people bring more of their operating business to you, we're, of course, advising them on the best way to manage their liquidity, which doesn't always mean keeping it in an interest rate checking account. But over time, as you're just getting more and more of their operating deposits, it's not just going to show up as fees.

It will begin to show up as growth in commercial non-interest bearing. And I think you've seen that steadily over the last year. So I would expect that the percentage of total deposits that are comprised of commercial non-interest bearing to stay around this 13% or so level, which suggests you are going to see growth moving into '27.

Rob Holmes

And if you're onboarding the right clients, those clients continue to grow as well.

David Chiaverini

And sticking with deposits, can you talk about just the competitiveness given how active the Texas market has been? Are you seeing increased competitiveness or kind of stable competitiveness?

Rob Holmes

I'd characterize the Texas market has always been very, very competitive. Most of these banks have already had front-line people here. But I will say there are some irrational banks doing some pretty irrational things. That's the beauty and the power of our platform. Matt talked about commercial real estate. We want to bank the clients that are already clients with us. That book will grow when they go to perform new development. We're not out to get more wallet share.

And so when those clients act, we will be by them, but we don't need to do irrational very large holds for substandard rates to achieve loan growth targets for a balance sheet. And you're seeing that in the market, and we're not going to participate in it. So you do see some irrational actors, but the competition has been very strong for a long time and it continues to be.

Operator

Your next call comes from the line of Anthony Elian with JPMorgan.

Anthony Elian

Matt, on your earlier comments, you gave us some color on 4Q NII and NIM. What's driving the sequential declines in both of those metrics relative to 3Q? Were there any one-timers we should back out?

Matt Scurlock

No, the margin would suggest you're going to have growth. So you're going from 3.44% to 3.45% to 3.50%, which is in part because you're going to have lower mortgage finance balances. So a small portion of the balance sheet is comprised of a slightly lower yielding earning asset, so margin up and then NII relatively flat, $270 million $275 million.

Anthony Elian

And then on the buyback, how are you thinking about balancing how aggressive you'll be with deploying the new $200 million given your CET1 is above 12%, your TCE is around 10%, with your earlier comments around investing in the franchise and hiring talent?

Matt Scurlock

Yes. Thanks, Tony. So CET1 is up 6 basis points relative to last year with 13% growth in C&I, and we purchased $325 million or 7.5% of the company at $92.70 a share. So we're really pleased with the ability to manage the buyback appropriately. Equally, if not more important, than the CET1 performance is that tangible common equity to tangible assets for us is flat relative to Q1 at 9.85% and remains top quartile versus peers. We've also been really vocal, Tony, that that is an incredibly important metric for us in an environment with rates and earnings are up and balance sheet size and stock price are down, our current and anticipated capital levels give us a lot of options to add to forward earnings per share, tangible book value per share growth.

We've been pretty active under 1.3x tangible, which we're obviously under today. It's probably a pretty good way to think about it moving forward. And then we don't view investing in the franchise and managing the capital base in conflict with each other. We'll continue to put that to work on behalf of the shareholders.

Rob Holmes

Very well said. I would just add that the TCE to TA is sacrosanct to us. It's a non-negotiable. It allows us to be proactive in the market. It allows us to have flexibility on buyback. It allows us to do other things. We're not going to sacrifice that over a period of time to activate any one action on the balance sheet.

Anthony Elian

Okay. One more for me. So on the planned investments, you had a press release a few weeks ago that you're opening offices in New York, Los Angeles and Chicago. Outside of recruiting talent that you discussed earlier, I'm curious if we should expect more of this nationwide expansion with an increased physical footprint and ultimately, what this could mean for expenses beyond 4Q?

Rob Holmes

Great question. Look, those offices were opened because we already have employees there, and it's a good-sized group of employees. We believe we need to be in office, need to understand our risk appetite, our go-to-market strategies. We need to be the same firm. We do not believe in work from home and one-off bankers in the market. We need to create scale where we are. So these activities weren't about we wanted to be in Illinois or California, it's where we found talent and we wanted them to be together and go to market as one firm.

And then as you know, in New York, we distribute a lot of debt and equity. And last year, we distributed more debt and equity than assets of the bank. And there's a lot of those investors in New York. So there's different pockets of talent that we wanted. It's not about being in the geographic regions, but we do have a lot of clients in geographic regions through our industry verticals. But it wasn't about that. It was about talent that we had in those markets come together. So to answer your question, don't pencil in any expenses from more leases.

Operator

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

Jon Arfstrom

Rob, can you talk -- you mentioned technology. Can you talk about some of the changes you're referencing and what you're ditching or restructuring and what's new and different in terms of what you want that you didn't have before? And is this competitive advantage type stuff or just kind of trying to keep up with some of your competitors?

Rob Holmes

Thanks for the question. I won't talk as long as I want to about this, but we're really, really excited about this. We had a great technology team before. They were great with platforms. They were great getting us up and running, very grateful for their time here, left on very good terms. And today, we have a brand-new leader and leadership over the entirety of the platform that is simply better suited to advance the new technology that we want to deploy today.

We've made good quality efforts in client journeys as well as AI and the changes we made and the talent we brought on board will absolutely propel those efforts, and we're really, really excited about it. This is not incremental change. And the change actually is concurrent with the org change that Matt talked about with the group in how we go to market and how we build products and services in the bank.

Jon Arfstrom

Okay. Good. It kind of rhymes with the question I asked you last quarter on incorporation. But can you just touch briefly on the change in your listing to the Texas Stock Exchange? Any tangible benefits and anything you give up by making that move?

Rob Holmes

We give up nothing. We're going to change to TXCP in the coming weeks. So be sure and note that. The transfer to TXSE has gone smoothly. They have a great trade matching engine and technology, and they also have a really good shared listing construct, which allows us to benefit from their profits by being traded on that exchange. And we're excited to be on it and as well as our ETFs. And we had the first 2 securities ever listed on a Texas exchange in the history of the state. And the exchange has done well. They have over $100 billion of market cap on the exchange today with a pipeline with more on the way. It's pretty exciting.

Operator

We have reached the end of the Q&A session. I will now turn the call back to Rob Holmes for closing remarks.

Rob Holmes

I just want to thank all the employees of Texas Capital for a great quarter and look forward to the fourth. Thank you.