

TEXAS CAPITAL BANCSHARES INC/TX
Form 10-Q
April 18, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended March 31, 2019

¨ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from _____ to _____

Commission file number 001-34657

TEXAS CAPITAL BANCSHARES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 75-2679109

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

2000 McKinney Avenue, Suite 700, 75201

Dallas, Texas, U.S.A.

(Address of principal executive officers) (Zip Code)

214/932-6600

(Registrant's telephone number, including area code)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x

Accelerated Filer ¨

Non-Accelerated Filer ¨

Smaller Reporting Company ¨

Emerging Growth Company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

APPLICABLE ONLY TO CORPORATE ISSUERS:

On April 17, 2019, the number of shares set forth below was outstanding with respect to each of the issuer's classes of common stock:

Common Stock, par value \$0.01 per share 50,273,887

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PART I - FINANCIAL INFORMATION
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 TEXAS CAPITAL BANCSHARES, INC.
 CONSOLIDATED BALANCE SHEETS

(in thousands except per share data)	March 31, 2019 (Unaudited)	December 31, 2018
Assets		
Cash and due from banks	\$ 177,137	\$ 214,191
Interest-bearing deposits in other banks	2,129,155	2,815,684
Federal funds sold and securities purchased under resale agreements	25,000	50,190
Investment securities	230,749	120,216
Loans held for sale (\$1,901.6 million at March 31, 2019 and \$1,969.2 million at December 31, 2018, at fair value)	1,901,637	1,969,474
Loans held for investment, mortgage finance	6,299,710	5,877,524
Loans held for investment (net of unearned income)	17,061,590	16,690,550
Less: Allowance for loan losses	208,573	191,522
Loans held for investment, net	23,152,727	22,376,552
Mortgage servicing rights, net	44,088	42,474
Premises and equipment, net	24,200	23,802
Accrued interest receivable and other assets	679,966	626,614
Goodwill and intangible assets, net	18,452	18,570
Total assets	\$28,383,111	\$28,257,767
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	\$ 6,743,607	\$ 7,317,161
Interest-bearing	13,906,520	13,288,952
Total deposits	20,650,127	20,606,113
Accrued interest payable	24,488	20,675
Other liabilities	233,398	194,238
Federal funds purchased and repurchase agreements	897,892	641,174
Other borrowings	3,600,000	3,900,000
Subordinated notes, net	281,858	281,767
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	25,801,169	25,757,373
Stockholders' equity:		
Preferred stock, \$.01 par value, \$1,000 liquidation value:		
Authorized shares—10,000,000		
Issued shares—6,000,000 shares issued at March 31, 2019 and December 31, 2018	150,000	150,000
Common stock, \$.01 par value:		
Authorized shares—100,000,000		
Issued shares—50,264,028 and 50,201,127 at March 31, 2019 and December 31, 2018, respectively	503	502
Additional paid-in capital	969,079	967,890
Retained earnings	1,461,893	1,381,492
Treasury stock (shares at cost: 417 at March 31, 2019 and December 31, 2018)	(8) (8
Accumulated other comprehensive income, net of taxes	475	518
Total stockholders' equity	2,581,942	2,500,394

Total liabilities and stockholders' equity	\$28,383,111	\$28,257,767
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See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME AND OTHER
COMPREHENSIVE INCOME -UNAUDITED

(in thousands except per share data)	Three months ended	
	March 31, 2019	2018
Interest income		
Interest and fees on loans	\$312,703	\$243,864
Investment securities	1,460	206
Federal funds sold and securities purchased under resale agreements	379	1,045
Interest-bearing deposits in other banks	11,019	8,754
Total interest income	325,561	253,869
Interest expense		
Deposits	69,054	31,702
Federal funds purchased	3,516	969
Other borrowings	11,854	5,680
Subordinated notes	4,191	4,191
Trust preferred subordinated debentures	1,332	1,027
Total interest expense	89,947	43,569
Net interest income	235,614	210,300
Provision for credit losses	20,000	12,000
Net interest income after provision for credit losses	215,614	198,300
Non-interest income		
Service charges on deposit accounts	2,979	3,137
Wealth management and trust fee income	2,009	1,924
Brokered loan fees	5,066	5,168
Servicing income	2,734	5,492
Swap fees	1,031	1,562
Net gain/(loss) on sale of loans held for sale	(505) (2,173)
Other	16,700	4,837
Total non-interest income	30,014	19,947
Non-interest expense		
Salaries and employee benefits	77,823	72,537
Net occupancy expense	7,879	7,234
Marketing	11,708	8,677
Legal and professional	10,030	7,530
Communications and technology	9,198	6,633
FDIC insurance assessment	5,122	6,103
Servicing related expenses	5,382	3,805
Allowance and other carrying costs for other real estate owned	—	2,155
Other	13,236	12,286
Total non-interest expense	140,378	126,960
Income before income taxes	105,250	91,287
Income tax expense	22,411	19,342
Net income	82,839	71,945
Preferred stock dividends	2,438	2,438
Net income available to common stockholders	\$80,401	\$69,507
Other comprehensive income (loss)	\$(53) \$(63)

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Change in unrealized gain (loss) on available-for-sale debt securities arising during period, before tax		
Income tax expense (benefit) related to unrealized loss on available-for-sale debt securities	(10)	(13)
Other comprehensive income (loss), net of tax	(43)	(50)
Comprehensive income	\$82,796	\$71,895
Basic earnings per common share	\$1.60	\$1.40
Diluted earnings per common share	\$1.60	\$1.38
See accompanying notes to consolidated financial statements.		

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - UNAUDITED

(In thousands except share data)	Preferred Stock		Common Stock		Additional	Retained Earnings	Treasury	Accumulated		Total
	Shares	Amount	Shares	Amount	Paid-in Capital		Stock	Other Comprehensive Income		
Balance at December 31, 2017 (audited)	6,000,000	\$ 150,000	49,643,761	\$ 496	\$ 961,305	\$ 1,090,500	(417)	\$ (8)	\$ 428	\$ 2,202,721
Impact of adoption of new accounting standards(1)						\$ (82)			\$ 84	\$ 2
Comprehensive income:										
Net income	—	—	—	—	—	71,945	—	—	—	71,945
Change in unrealized gain on available-for-sale securities, net of taxes of \$13	—	—	—	—	—	—	—	—	(50)	(50)
Total comprehensive income										71,895
Stock-based compensation expense recognized in earnings	—	—	—	—	1,957	—	—	—	—	1,957
Preferred stock dividend	—	—	—	—	—	(2,438)	—	—	—	(2,438)
Issuance of stock related to stock-based awards	—	—	26,430	1	(709)	—	—	—	—	(708)
Balance at March 31, 2018	6,000,000	\$ 150,000	49,670,191	\$ 497	\$ 962,553	\$ 1,159,925	(417)	\$ (8)	\$ 462	\$ 2,273,429
Balance at December 31, 2018 (audited)	6,000,000	\$ 150,000	50,201,127	\$ 502	\$ 967,890	\$ 1,381,492	(417)	\$ (8)	\$ 518	\$ 2,500,394
Comprehensive income:										
Net income	—	—	—	—	—	82,839	—	—	—	82,839
Change in unrealized gain on available-for-sale securities, net of	—	—	—	—	—	—	—	—	(43)	(43)

taxes of \$10											
Total											
comprehensive											82,796
income											
Stock-based											
compensation											
expense	—	—	—	—	2,423	—	—	—	—	—	2,423
recognized in											
earnings											
Preferred stock											
dividend	—	—	—	—	—	(2,438)	—	—	—	(2,438)
Issuance of stock											
related to											
stock-based	—	—	54,133	1	(1,234)	—	—	—	—	(1,233)
awards											
Issuance of											
common stock	—	—	8,768	—	—	—	—	—	—	—	—
related to warrants											
Balance at March	6,000,000	\$ 150,000	50,264,028	\$ 503	\$ 969,079	\$ 1,461,893	(417)	\$(8)	\$ 475	\$ 2,581,942	
31, 2019											

Represents the impact of adopting Accounting Standard Update ("ASU") 2018-02 and ASU 2016-01. See Note 1 to (1) the consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 for more information.

See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In thousands)	Three months ended	
	March 31, 2019	2018
Operating activities		
Net income	\$82,839	\$71,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	20,000	12,000
Depreciation and amortization	7,792	8,240
Net (gain)/loss on sale of loans held for sale	505	2,173
Increase (decrease) in valuation allowance on mortgage servicing rights	2,931	(757)
Stock-based compensation expense	4,488	5,971
Purchases and originations of loans held for sale	(1,550,059)	(1,479,006)
Proceeds from sales and repayments of loans held for sale	1,602,923	1,381,277
Other real estate owned write-down	—	2,000
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(58,278)	15,238
Accrued interest payable and other liabilities	51,023	(13,757)
Net cash provided by (used in) operating activities	164,164	5,324
Investing activities		
Purchases of available-for-sale investment securities	(109,928)	(2,455)
Principal payments received on available-for-sale securities	307	763
Originations of mortgage finance loans	(24,328,971)	(19,821,894)
Proceeds from pay-offs of mortgage finance loans	23,906,785	20,440,116
Net increase in loans held for investment, excluding mortgage finance loans	(375,628)	(380,725)
Purchase of premises and equipment, net	(2,642)	(4,441)
Proceeds from sale of other real estate owned, net	79	184
Net cash provided by/(used in) by investing activities	(909,998)	231,548
Financing activities		
Net increase/(decrease) in deposits	44,014	(358,647)
Costs from issuance of stock related to stock-based awards and warrants	(1,233)	(708)
Preferred dividends paid	(2,438)	(2,438)
Net increase/(decrease) in other borrowings	(300,000)	(500,000)
Net increase (decrease) in Federal funds purchased and repurchase agreements	256,718	170,500
Net cash provided by/(used in) financing activities	(2,939)	(691,293)
Net increase/(decrease) in cash and cash equivalents	(748,773)	(454,421)
Cash and cash equivalents at beginning of period	3,080,065	2,905,591
Cash and cash equivalents at end of period	\$2,331,292	\$2,451,170
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$86,134	\$46,075
Cash paid during the period for income taxes	6	266
See accompanying notes to consolidated financial statements.		

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(1) Operations and Summary of Significant Accounting Policies

Organization and Nature of Business

Texas Capital Bancshares, Inc. (the "Company"), a Delaware corporation, was incorporated in November 1996 and commenced banking operations in December 1998. The consolidated financial statements of the Company include the accounts of Texas Capital Bancshares, Inc. and its wholly owned subsidiary, Texas Capital Bank, National Association (the "Bank"). We serve the needs of commercial businesses and successful professionals and entrepreneurs located in Texas as well as operate several lines of business serving a regional or national clientele of commercial borrowers. We are primarily a secured lender, with the majority of our loans held for investment, excluding mortgage finance loans and other national lines of business, being made to businesses headquartered or with operations in Texas. Our national lines of business provide specialized lending products to businesses throughout the United States.

Basis of Presentation

Our accounting and reporting policies conform to accounting principles generally accepted in the United States ("GAAP") and to generally accepted practices within the banking industry. Certain prior period balances have been reclassified to conform to the current period presentation.

The consolidated interim financial statements are unaudited and certain information and footnote disclosures presented in accordance with GAAP have been condensed or omitted. In the opinion of management, the interim financial statements include all normal and recurring adjustments and the disclosures made are adequate to make the interim financial information not misleading. The consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the instructions to Form 10-Q adopted by the Securities and Exchange Commission ("SEC"). Accordingly, the financial statements do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our consolidated financial statements, and notes thereto, for the year ended December 31, 2018, included in our Annual Report on Form 10-K filed with the SEC on February 14, 2019 (the "2018 Form 10-K"). Operating results for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year or any future period.

Accounting Changes

ASU 2016-02 "Leases (Topic 842)" ("ASU 2016-02") requires that lessees and lessors recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. ASU 2016-02 was effective for us on January 1, 2019. ASU 2016-02 provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption with the option to elect certain practical expedients. We have elected to apply ASU 2016-02 as of the beginning of the period of adoption (January 1, 2019) and have not restated comparative periods. Of the optional practical expedients available under ASU 2016-02, all have been adopted except for the hindsight practical expedient.

Our operating leases relate primarily to office space and bank branches. As a result of implementing ASU 2016-02, we recognized an operating lease right-of-use ("ROU") asset of \$64 million and an operating lease liability of \$74 million on January 1, 2019, with no impact on our consolidated statement of income or consolidated statement of cash flows compared to the prior lease accounting model. The ROU asset and operating lease liability are recorded in other assets and other liabilities, respectively, in the consolidated balance sheets. See Note 7 - Leases for additional information.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. The allowance for loan losses, the fair value of financial instruments and the status of contingencies are particularly susceptible to significant change.

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(2) Earnings Per Share

The following table presents the computation of basic and diluted earnings per share:

(in thousands except per share data)	Three months ended March 31,	
	2019	2018
Numerator:		
Net income	\$82,839	\$ 71,945
Preferred stock dividends	2,438	2,438
Net income available to common stockholders	\$80,401	\$ 69,507
Denominator:		
Denominator for basic earnings per share—weighted average shares	50,229,799	49,650,884
Effect of employee stock-based awards(1)	115,602	255,794
Effect of warrants to purchase common stock	—	446,819
Denominator for dilutive earnings per share—adjusted weighted average shares and assumed conversions	50,345,399	50,353,497
Basic earnings per common share	\$ 1.60	\$ 1.40
Diluted earnings per common share	\$ 1.60	\$ 1.38

(1) SARs and RSUs outstanding of 411,065 at March 31, 2019 and 5,139 at March 31, 2018 have not been included in diluted earnings per share because to do so would have been antidilutive for the periods presented.

(3) Investment Securities

Available-for-Sale Debt Securities

The following is a summary of available-for-sale debt securities:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2019				
Available-for-sale debt securities:				
Residential mortgage-backed securities	\$ 6,567	\$ 361	\$ —	\$ 6,928
Tax-exempt asset-backed securities	187,528	4,316	—	191,844
Credit risk transfer securities	14,713	—	(4,076)	10,637
	\$ 208,808	\$ 4,677	\$ (4,076)	\$ 209,409

December 31, 2018

Available-for-sale debt securities:

Residential mortgage-backed securities	\$ 6,874	\$ 368	\$ —	\$ 7,242
Tax-exempt asset-backed securities	95,518	286	—	95,804
	\$ 102,392	\$ 654	\$ —	\$ 103,046

During the first quarter of 2019, we acquired a \$92.0 million tax-exempt security backed with underlying cash flows from municipal revenue bonds, as well as \$15.0 million in credit risk transfer ("CRT") securities. The securities were all recorded as available-for-sale upon acquisition and subsequently marked to fair value as of quarter end.

CRT securities represent unsecured obligations issued by government sponsored entities ("GSEs") such as Freddie Mac and are designed to transfer mortgage credit risk from the GSE to private investors. CRT securities are structured to be subject to the performance of a reference pool of mortgage loans in which we share in 50% of the first losses with the GSE. If the reference pool incurs losses, the amount we will recover on the notes is reduced by our share of the amount of such losses, which could potentially be up to 100% of the amount outstanding. The CRT securities are generally interest-only for an initial period of time and are restricted from being transferred until a future date.

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The amortized cost and estimated fair value of available-for-sale debt securities are presented below by contractual maturity:

(in thousands, except percentage data)	Less Than One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total
March 31, 2019					
Available-for-sale:					
Residential mortgage-backed securities:(1)					
Amortized cost	\$ —	\$ 1,419	\$ —	\$ 5,148	\$ 6,567
Estimated fair value	—	1,516	—	5,412	6,928
Weighted average yield(3)	6.50 %	5.54 %	— %	4.59 %	4.79 %
Tax-exempt asset-backed securities:(1)					
Amortized Cost	—	—	—	187,528	187,528
Estimated fair value	—	—	—	191,844	191,844
Weighted average yield(2)(3)	— %	— %	— %	4.20 %	4.20 %
CRT securities:					
Amortized Cost	—	—	—	14,713	14,713
Estimated fair value	—	—	—	10,637	10,637
Weighted average yield(3)	— %	— %	— %	2.49 %	2.49 %
Total available-for-sale debt securities:					
Amortized cost					\$ 208,808
Estimated fair value					\$ 209,409

December 31, 2018

Available-for-sale:

Residential mortgage-backed securities:(1)

Amortized cost	\$ 3	\$ 1,573	\$ —	\$ 5,298	\$ 6,874
Estimated fair value	4	1,668	—	5,570	7,242
Weighted average yield(3)	6.50 %	5.54 %	— %	4.53 %	4.76 %

Tax-exempt asset-backed securities:(1)

Amortized Cost	—	—	—	95,518	95,518
Estimated fair value	—	—	—	95,804	95,804
Weighted average yield(2)(3)	— %	— %	— %	4.25 %	4.25 %

Total available-for-sale debt securities:

Amortized cost					\$ 102,392
Estimated fair value					\$ 103,046

(1) Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

(2) Yields have been adjusted to a tax equivalent basis assuming a 21% federal tax rate.

(3) Yields are calculated based on amortized cost.

The following table discloses as of March 31, 2019 our available-for-sale debt securities that have been in a continuous unrealized loss position for less than 12 months and those that have been in a continuous unrealized loss position for 12 or more months:

March 31, 2019	Less Than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
CRT securities	\$ 14,713	\$ (4,076)	\$ —	\$ —	\$ 14,713	\$ (4,076)

At March 31, 2019, the CRT securities were the only available-for-sale debt securities in an unrealized loss position.

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We conduct periodic reviews of securities with unrealized losses to evaluate whether the impairment is other-than-temporary. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in accumulated other comprehensive income ("AOCI") for available-for-sale debt securities. When we have the intent to sell or we believe we will more likely than not be required to sell an available-for-sale debt security, the entire excess of its amortized cost basis over its fair value is recognized in earnings. For available-for-sale debt securities that we do not intend to sell and are not likely to be required to sell, only the credit-related impairment is recognized in earnings and any non-credit-related impairment is recorded in AOCI.

Based on the results of our periodic review of available-for-sale debt securities in an unrealized loss position at March 31, 2019, we recorded a \$331,000 other-than-temporary credit-related impairment on the CRT securities, reducing the amortized cost of the securities. The loss was measured as the excess of the amortized costs basis of the security over the present value of cash flows expected to be collected and was recorded in other non-interest expense. These securities also have unrealized losses, which we do not believe are other-than-temporary. We have evaluated the near-term prospects of the investments in relation to the severity and duration of the impairment and based on that evaluation have determined that we have the ability and intent to hold the investments until recovery of fair value. Available-for-sale debt securities with carrying values of approximately \$4.6 million and \$1.6 million were pledged to secure certain customer repurchase agreements and deposits at March 31, 2019. The comparative amounts at December 31, 2018 were \$4.8 million and \$1.7 million, respectively.

Equity Securities

Equity securities consist of Community Reinvestment Act funds and investments related to our non-qualified deferred compensation plan. At March 31, 2019 and December 31, 2018, we had \$21.3 million and \$17.2 million, respectively, in equity securities recorded at fair value. The following is a summary of unrealized and realized gains/(losses) recognized on equity securities in other non-interest income in the consolidated statements of income:

	Three months ended March 31,	
(in thousands)	2019	2018
Net gains/(losses) recognized during the period	\$1,266	\$(212)
Less: Realized net gains/(losses) recognized during the period on equity securities sold	(30)	—
Unrealized net gains/(losses) recognized during the period on equity securities still held	\$1,296	\$(212)

(4) Loans Held for Investment and Allowance for Loan Losses

Loans held for investment are summarized by portfolio segment as follows:

(in thousands)	March 31, 2019	December 31, 2018
Commercial	\$10,673,960	\$10,373,288
Mortgage finance(1)	6,299,710	5,877,524
Construction	2,493,192	2,120,966
Real estate	3,642,566	3,929,117
Consumer	61,377	63,438
Equipment leases	292,248	312,191
Gross loans held for investment	23,463,053	22,676,524
Deferred income (net of direct origination costs)	(101,753)	(108,450)
Allowance for loan losses	(208,573)	(191,522)
Total loans held for investment, net	\$23,152,727	\$22,376,552

(1) Balances at March 31, 2019 and December 31, 2018 are stated net of \$185.4 million and \$193.0 million of participations sold, respectively.

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Summary of Loan Loss Experience

The following tables summarize the credit risk profile of our loans held for investment by internally assigned grades and non-accrual status:

(in thousands)	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Equipment Leases	Total
March 31, 2019							
Grade:							
Pass	\$ 10,205,865	\$ 6,299,710	\$ 2,478,880	\$ 3,526,380	\$ 59,759	\$ 289,664	\$ 22,860,258
Special mention	200,920	—	—	75,755	—	1,975	278,650
Substandard-accruing	145,988	—	14,312	27,980	1,566	609	190,455
Non-accrual	121,187	—	—	12,451	52	—	133,690
Total loans held for investment	\$ 10,673,960	\$ 6,299,710	\$ 2,493,192	\$ 3,642,566	\$ 61,377	\$ 292,248	\$ 23,463,053
December 31, 2018							
Grade:							
Pass	\$ 10,034,597	\$ 5,877,524	\$ 2,099,955	\$ 3,850,811	\$ 61,815	\$ 309,775	\$ 22,234,477
Special mention	120,531	—	21,011	47,644	—	2,223	191,409
Substandard-accruing	140,297	—	—	28,205	1,568	193	170,263
Non-accrual	77,863	—	—	2,457	55	—	80,375
Total loans held for investment	\$ 10,373,288	\$ 5,877,524	\$ 2,120,966	\$ 3,929,117	\$ 63,438	\$ 312,191	\$ 22,676,524

The allowance for loan losses is comprised of general reserves and specific reserves for impaired loans based on our estimate of losses inherent in the portfolio at the balance sheet date, but not yet identified with specified loans. We believe the allowance at March 31, 2019 to be appropriate, given management's assessment of losses inherent in the portfolio as of the evaluation date, the growth in the loan and lease portfolio, current economic conditions in our market areas and other factors.

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The following table details activity in the allowance for loan losses, as well as the recorded investment in loans held for investment, by portfolio segment and disaggregated on the basis of our impairment methodology. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(in thousands)	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Equipment Leases	Additional Qualitative Reserve	Total
Three months ended March 31, 2019								
Allowance for loan losses:								
Beginning balance	\$ 129,442	\$—	\$ 19,242	\$ 33,353	\$ 425	\$ 1,829	\$ 7,231	\$ 191,522
Provision for loan losses	25,506	1,300	3,583	(1,272)	(46)	(201)	(7,231)	21,639
Charge-offs	4,865	—	—	—	—	—	—	4,865
Recoveries	266	—	—	—	10	1	—	277
Net charge-offs (recoveries)	4,599	—	—	—	(10)	(1)	—	4,588
Ending balance	\$ 150,349	\$ 1,300	\$ 22,825	\$ 32,081	\$ 389	\$ 1,629	\$—	\$ 208,573
Period end allowance for loan losses allocated to:								
Loans individually evaluated for impairment	\$ 27,409	\$—	\$—	\$ 1,599	\$ 10	\$—	\$—	\$ 29,018
Loans collectively evaluated for impairment	122,940	1,300	22,825	30,482	379	1,629	—	179,555
Total	\$ 150,349	\$ 1,300	\$ 22,825	\$ 32,081	\$ 389	\$ 1,629	\$—	\$ 208,573
Period end loans allocated to:								
Loans individually evaluated for impairment	\$ 121,187	\$—	\$—	\$ 18,709	\$ 52	\$—	\$—	\$ 139,948
Loans collectively evaluated for impairment	10,552,773	6,299,710	2,493,192	3,623,857	61,325	292,248	—	23,323,105
Total	\$ 10,673,960	\$ 6,299,710	\$ 2,493,192	\$ 3,642,566	\$ 61,377	\$ 292,248	\$—	\$ 23,463,053
Three months ended March 31, 2018								
Allowance for loan losses:								
Beginning balance	\$ 118,806	\$—	\$ 19,273	\$ 34,287	\$ 357	\$ 3,542	\$ 8,390	\$ 184,655
Provision for loan losses	17,546	—	(518)	(200)	(178)	(18)	(5,184)	11,448
Charge-offs	5,667	—	—	—	—	—	—	5,667
Recoveries	360	—	—	24	59	19	—	462
Net charge-offs (recoveries)	5,307	—	—	(24)	(59)	(19)	—	5,205

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Ending balance	\$ 131,045	\$—	\$ 18,755	\$ 34,111	\$ 238	\$ 3,543	\$ 3,206	\$ 190,898
Period end allowance for loan losses allocated to:								
Loans individually evaluated for impairment	\$ 34,897	\$—	\$—	\$ 22	\$ 2	\$—	\$—	\$ 34,921
Loans collectively evaluated for impairment	96,148	—	18,755	34,089	236	3,543	3,206	155,977
Total	\$ 131,045	\$—	\$ 18,755	\$ 34,111	\$ 238	\$ 3,543	\$ 3,206	\$ 190,898
Period end loans allocated to:								
Loans individually evaluated for impairment	\$ 123,206	\$—	\$—	\$ 1,187	\$ 72	\$—	\$—	\$ 124,465
Loans collectively evaluated for impairment	9,337,818	4,689,938	2,224,403	3,833,571	47,239	276,303	—	20,409,272
Total	\$ 9,461,024	\$ 4,689,938	\$ 2,224,403	\$ 3,834,758	\$ 47,311	\$ 276,303	\$—	\$ 20,533,737

During the first quarter of 2019, we refined our methodology for calculating the allowance for loan losses to improve the specificity of the risk weights and the risk-weighting process for each product type assigned to the loans in our held for investment portfolio. As a result of these refinements, management is better able to allocate inherent losses previously accounted for in the additional qualitative reserve component of our allowance for loan losses to specific product types and credit risk grades, thus eliminating the additional qualitative reserve component of our allowance for loan losses in the first quarter of 2019. Additionally, this improved specificity and consideration of current mortgage market conditions has resulted

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in the allocation of a portion of the company's provision for loan losses to our mortgage finance loan portfolio for the first time in the first quarter of 2019.

The following tables detail our impaired loans held for investment by portfolio segment. In accordance with ASC 310, Receivables, we have also included all restructured and formerly restructured loans in our impaired loan totals.

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2019					
With no related allowance recorded:					
Commercial					
Business loans	\$ 21,075	\$37,077	\$ —	\$ 12,218	\$ —
Energy loans	9,048	10,124	—	5,724	—
Real estate					
Market risk	—	—	—	—	—
Commercial	7,220	7,220	—	4,048	—
Secured by 1-4 family	1,228	1,228	—	683	—
Consumer	—	—	—	—	—
Equipment leases	—	—	—	—	—
Total impaired loans with no allowance recorded	\$ 38,571	\$55,649	\$ —	\$ 22,673	\$ —
With an allowance recorded:					
Commercial					
Business loans	\$ 23,374	\$23,909	\$ 9,663	\$ 11,687	\$ —
Energy loans	67,690	70,551	17,746	28,195	—
Real estate					
Market risk	8,478	8,478	1,378	2,826	—
Commercial	—	—	—	—	—
Secured by 1-4 family	1,783	1,783	221	647	—
Consumer	52	52	10	30	—
Equipment leases	—	—	—	—	—
Total impaired loans with an allowance recorded	\$ 101,377	\$ 104,773	\$ 29,018	\$ 43,385	\$ —
Combined:					
Commercial					
Business loans	\$ 44,449	\$60,986	\$ 9,663	\$ 23,905	\$ —
Energy loans	76,738	80,675	17,746	33,919	—
Real estate					
Market risk	8,478	8,478	1,378	2,826	—
Commercial	7,220	7,220	—	4,048	—
Secured by 1-4 family	3,011	3,011	221	1,330	—
Consumer	52	52	10	30	—
Equipment leases	—	—	—	—	—
Total impaired loans	\$ 139,948	\$ 160,422	\$ 29,018	\$ 66,058	\$ —

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(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2018					
With no related allowance recorded:					
Commercial					
Business loans	\$ 23,367	\$55,008	\$ —	\$ 16,426	\$ 133
Energy loans	12,188	13,363	—	17,135	—
Real estate					
Market risk	—	—	—	—	—
Commercial	7,388	7,388	—	3,215	—
Secured by 1-4 family	1,233	1,233	—	734	—
Consumer	—	—	—	—	—
Equipment leases	—	—	—	—	—
Total impaired loans with no allowance recorded	\$ 44,176	\$76,992	\$ —	\$ 37,510	\$ 133
With an allowance recorded:					
Commercial					
Business loans	\$ 17,529	\$17,564	\$ 4,679	\$41,307	\$ —
Energy loans	25,344	28,105	3,573	25,672	—
Real estate					
Market risk	—	—	—	49	—
Commercial	—	—	—	83	—
Secured by 1-4 family	236	236	48	188	—
Consumer	55	55	10	54	—
Equipment leases	—	—	—	275	—
Total impaired loans with an allowance recorded	\$ 43,164	\$45,960	\$ 8,310	\$ 67,628	\$ —
Combined:					
Commercial					
Business loans	\$ 40,896	\$72,572	\$ 4,679	\$ 57,733	\$ 133
Energy loans	37,532	41,468	3,573	42,807	—
Real estate					
Market risk	—	—	—	49	—
Commercial	7,388	7,388	—	3,298	—
Secured by 1-4 family	1,469	1,469	48	922	—
Consumer	55	55	10	54	—
Equipment leases	—	—	—	275	—
Total impaired loans	\$ 87,340	\$122,952	\$ 8,310	\$ 105,138	\$ 133

Average impaired loans outstanding during the three months ended March 31, 2019, and 2018 totaled \$66.1 million and \$109.9 million, respectively. As of March 31, 2019 and December 31, 2018, none of our non-accrual loans were earning interest income on a cash basis.

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The table below provides an age analysis of our loans held for investment:

(in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days(1)	Total Past Due	Non-accrual	Current	Total
March 31, 2019							