

TEXAS CAPITAL BANCSHARES INC/TX  
Form 10-Q  
July 21, 2016  
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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 June 30, 2016

¨ 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 (I.R.S. Employer  
incorporation or organization) Identification Number)  
2000 McKinney Avenue, Suite 700, Dallas, Texas, U.S.A. 75201  
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ý ¨ No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "large accelerated filer" and "accelerated filer" Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  Smaller Reporting Company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

On July 20, 2016, 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 45,956,858

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TEXAS CAPITAL BANCSHARES, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	\$98,807	\$109,496
Interest-bearing deposits	2,594,170	1,626,374
Federal funds sold and securities purchased under resale agreements	30,000	55,000
Securities, available-for-sale	27,372	29,992
Loans held for sale, at fair value	221,347	86,075
Loans held for investment, mortgage finance	5,260,027	4,966,276
Loans held for investment (net of unearned income)	12,502,513	11,745,674
Less: Allowance for loan losses	167,397	141,111
Loans held for investment, net	17,595,143	16,570,839
Mortgage servicing rights, net	8,543	423
Premises and equipment, net	21,766	23,561
Accrued interest receivable and other assets	464,098	382,101
Goodwill and intangible assets, net	19,748	19,960
Total assets	\$21,080,994	\$18,903,821
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	\$7,984,208	\$6,386,911
Interest-bearing	8,719,357	8,697,708
Total deposits	16,703,565	15,084,619
Accrued interest payable	5,339	5,097
Other liabilities	177,641	153,433
Federal funds purchased and repurchase agreements	95,982	143,051
Other borrowings	2,019,463	1,500,000
Subordinated notes	280,863	280,682
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	19,396,259	17,280,288
Stockholders' equity:		
Preferred stock, \$.01 par value, \$1,000 liquidation value:		
Authorized shares – 10,000,000		
Issued shares – 6,000,000 shares issued at June 30, 2016 and December 31, 2015	150,000	150,000
Common stock, \$.01 par value:		
Authorized shares – 100,000,000		
Issued shares – 45,953,328 and 45,874,224 at June 30, 2016 and December 31, 2015, respectively	460	459
Additional paid-in capital	716,652	714,546
Retained earnings	816,951	757,818
Treasury stock (shares at cost: 417 at June 30, 2016 and December 31, 2015)	(8	) (8
Accumulated other comprehensive income, net of taxes	680	718
Total stockholders' equity	1,684,735	1,623,533

Total liabilities and stockholders' equity	\$21,080,994	\$18,903,821
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See accompanying notes to consolidated financial statements.

## TEXAS CAPITAL BANCSHARES, INC.

## CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME – UNAUDITED

(In thousands except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest income				
Interest and fees on loans	\$ 168,064	\$ 151,606	\$ 323,949	\$ 290,780
Securities	246	323	507	681
Federal funds sold and securities purchased under resale agreements	382	118	754	234
Deposits in other banks	3,750	1,327	7,035	2,587
Total interest income	172,442	153,374	332,245	294,282
Interest expense				
Deposits	8,971	5,642	17,793	11,270
Federal funds purchased	110	93	236	161
Repurchase agreements	2	4	5	8
Other borrowings	1,365	528	2,527	918
Subordinated notes	4,191	4,191	8,382	8,382
Trust preferred subordinated debentures	734	631	1,450	1,249
Total interest expense	15,373	11,089	30,393	21,988
Net interest income	157,069	142,285	301,852	272,294
Provision for credit losses	16,000	14,500	46,000	25,500
Net interest income after provision for credit losses	141,069	127,785	255,852	246,794
Non-interest income				
Service charges on deposit accounts	2,411	2,149	4,521	4,243
Trust fee income	1,098	1,287	1,911	2,487
Bank owned life insurance (BOLI) income	536	476	1,072	960
Brokered loan fees	5,864	5,277	10,509	9,509
Swap fees	1,105	1,035	1,412	3,021
Other	2,918	2,547	5,804	4,818
Total non-interest income	13,932	12,771	25,229	25,038
Non-interest expense				
Salaries and employee benefits	54,810	48,200	106,182	94,028
Net occupancy expense	5,838	5,808	11,650	11,499
Marketing	4,486	3,925	8,394	8,143
Legal and professional	6,226	5,618	11,550	9,666
Communications and technology	6,391	5,647	12,608	10,725
FDIC insurance assessment	6,043	4,211	11,512	8,001
Allowance and other carrying costs for OREO	260	6	496	15
Other	10,201	7,861	18,683	15,716
Total non-interest expense	94,255	81,276	181,075	157,793
Income before income taxes	60,746	59,280	100,006	114,039
Income tax expense	21,866	21,343	35,998	41,052
Net income	38,880	37,937	64,008	72,987
Preferred stock dividends	2,437	2,437	4,875	4,875
Net income available to common stockholders	\$ 36,443	\$ 35,500	\$ 59,133	\$ 68,112
Other comprehensive income (loss)				
Change in net unrealized gain on available-for-sale securities arising during period, before-tax	\$(22)	\$(321)	\$(58)	\$(397)

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Income tax benefit related to net unrealized gain on available-for-sale securities	(8	) (112	) (20	) (139	)
Other comprehensive loss, net of tax	(14	) (209	) (38	) (258	)
Comprehensive income	\$38,866	\$37,728	\$63,970	\$72,729	
Basic earnings per common share	\$0.79	\$0.78	\$1.29	\$1.49	
Diluted earnings per common share	\$0.78	\$0.76	\$1.27	\$1.47	
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 Paid-in Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
	Shares	Amount	Shares	Amount	Shares			Amount			
Balance at December 31, 2014	6,000,000	\$ 150,000	45,735,424	\$ 457	\$ 709,738	\$ 622,714	(417)	\$ (8)	\$ 1,289	\$ 1,484,190	
Comprehensive income:											
Net income	—	—	—	—	—	72,987	—	—	—	72,987	
Change in unrealized gain on available-for-sale securities, net of taxes of \$139	—	—	—	—	—	—	—	—	(258)	(258)	
Total comprehensive income										72,729	
Tax benefit related to exercise of stock-based awards	—	—	—	—	736	—	—	—	—	736	
Stock-based compensation expense recognized in earnings	—	—	—	—	2,103	—	—	—	—	2,103	
Issuance of preferred stock	—	—	—	—	—	—	—	—	—	—	
Preferred stock dividend	—	—	—	—	—	(4,875)	—	—	—	(4,875)	
Issuance of stock related to stock-based awards	—	—	77,964	1	(355)	—	—	—	—	(354)	
Balance at June 30, 2015	6,000,000	\$ 150,000	45,813,388	\$ 458	\$ 712,222	\$ 690,826	(417)	\$ (8)	\$ 1,031	\$ 1,554,529	
Balance at December 31, 2015	6,000,000	\$ 150,000	45,874,224	\$ 459	\$ 714,546	\$ 757,818	(417)	\$ (8)	\$ 718	\$ 1,623,533	



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Comprehensive income:										
Net income	—	—	—	—	—	64,008	—	—	—	64,008
Change in unrealized gain on available-for-sale securities, net of taxes of \$20	—	—	—	—	—	—	—	—	(38)	(38)
Total comprehensive income										63,970
Tax benefit related to exercise of stock-based awards	—	—	—	—	450	—	—	—	—	450
Stock-based compensation expense recognized in earnings	—	—	—	—	2,243	—	—	—	—	2,243
Preferred stock dividend	—	—	—	—	—	(4,875)	—	—	—	(4,875)
Issuance of stock related to stock-based awards	—	—	79,104	1	(587)	—	—	—	—	(586)
Balance at June 30, 2016	6,000,000	\$ 150,000	45,953,328	\$ 460	\$ 716,652	\$ 816,951	(417)	\$(8)	\$ 680	\$ 1,684,735

See accompanying notes to consolidated financial statements.

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TEXAS CAPITAL BANCSHARES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS—UNAUDITED  
(In thousands)

	Six months ended June	
	30,	2015
	2016	2015
Operating activities		
Net income	\$64,008	\$72,987
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	46,000	25,500
Depreciation and amortization	10,446	8,289
Addition to valuation allowance on mortgage servicing rights	414	—
Bank owned life insurance (BOLI) income	(1,072 )	(960 )
Stock-based compensation expense	3,725	6,641
Excess tax benefits from stock-based compensation arrangements	(553 )	(779 )
Purchases of loans held for sale	(876,516 )	
Proceeds from sales and repayments of loans held for sale	743,769	
Capitalization of mortgage servicing rights	(8,805 )	
Loss on sale of assets	12	24
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(71,805 )	(50,485 )
Accrued interest payable and other liabilities	23,094	12,090
Net cash provided by (used in) operating activities	(67,283 )	73,307
Investing activities		
Purchases of available-for-sale securities	(783 )	—
Maturities and calls of available-for-sale securities	265	1,950
Principal payments received on available-for-sale securities	3,080	4,011
Originations of mortgage finance loans	(45,811,787)	(45,359,254)
Proceeds from pay-offs of mortgage finance loans	45,518,036	44,554,964
Net increase in loans held for investment, excluding mortgage finance loans	(794,749 )	(976,122 )
Purchase of premises and equipment, net	(1,166 )	(2,635 )
Proceeds from sale of foreclosed assets	62	1,164
Net cash used in investing activities	(1,087,042 )	(1,775,922 )
Financing activities		
Net increase in deposits	1,618,946	1,514,976
Costs from issuance of stock related to stock-based awards and warrants	(586 )	(354 )
Preferred dividends paid	(4,875 )	(4,875 )
Net increase in other borrowings	519,463	299,995
Excess tax benefits from stock-based compensation arrangements	553	779
Net increase (decrease) in Federal funds purchased and repurchase agreements	(47,069 )	16,331
Net cash provided by financing activities	2,086,432	1,826,852
Net increase in cash and cash equivalents	932,107	124,237
Cash and cash equivalents at beginning of period	1,790,870	1,330,514
Cash and cash equivalents at end of period	\$2,722,977	\$1,454,751
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$30,151	\$21,830
Cash paid during the period for income taxes	43,309	42,934
Transfers from loans/leases to OREO and other repossessed assets	18,540	1,177
See accompanying notes to consolidated financial statements.		



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TEXAS CAPITAL BANCSHARES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—UNAUDITED

(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 and national clientele of commercial borrowers. We are primarily a secured lender, with our greatest concentration of loans in Texas.

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 have been prepared without audit. 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, 2015, included in our Annual Report on Form 10-K filed with the SEC on February 18, 2016 (the “2015 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.

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 stock-based compensation awards, the fair values of certain assets and liabilities and the status of contingencies are particularly susceptible to significant change in the near term.

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## (2) EARNINGS PER COMMON SHARE

The following table presents the computation of basic and diluted earnings per share (in thousands except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net income	\$38,880	\$ 37,937	\$64,008	\$ 72,987
Preferred stock dividends	2,437	2,437	4,875	4,875
Net income available to common stockholders	36,443	35,500	\$59,133	68,112
Denominator:				
Denominator for basic earnings per share— weighted average shares	45,924,281	45,790,093	45,906,506	45,774,461
Effect of employee stock-based awards(1)	124,974	229,378	121,524	219,448
Effect of warrants to purchase common stock	388,877	423,942	368,574	411,281
Denominator for dilutive earnings per share—adjusted weighted average shares and assumed conversions	46,438,132	46,443,413	46,396,604	46,405,190
Basic earnings per common share	\$0.79	\$ 0.78	\$ 1.29	\$ 1.49
Diluted earnings per common share	\$0.78	\$ 0.76	\$ 1.27	\$ 1.47

Stock options, SARs and RSUs outstanding of 252,754 at June 30, 2016 and 173,382 at June 30, 2015 have not (1) been included in diluted earnings per share because to do so would have been anti-dilutive for the periods presented.

## (3) SECURITIES

At June 30, 2016, our net unrealized gain on the available-for-sale securities portfolio was \$1.0 million compared to \$1.1 million at December 31, 2015. As a percent of outstanding balances, the unrealized gain was 3.98% and 3.83% at June 30, 2016, and December 31, 2015, respectively. The increase in the unrealized gain percentage at June 30, 2016 results from the reduction in the portfolio balance due to paydowns and maturities.

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The following is a summary of available-for-sale securities (in thousands):

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Residential mortgage-backed securities	\$ 17,456	\$ 1,177	\$ —	\$ 18,633
Municipals	564	2	—	566
Equity securities(1)	8,304	60	(191 )	8,173
	\$ 26,324	\$ 1,239	\$ (191 )	\$ 27,372

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Residential mortgage-backed securities	\$ 20,536	\$ 1,365	\$ —	\$ 21,901
Municipals	828	3	—	831
Equity securities(1)	7,522	11	(273 )	7,260
	\$ 28,886	\$ 1,379	\$ (273 )	\$ 29,992

(1) Equity securities consist of Community Reinvestment Act funds and investments related to our non-qualified deferred compensation plan.

The amortized cost and estimated fair value of available-for-sale securities are presented below by contractual maturity (in thousands, except percentage data):

	June 30, 2016				
	Less Than One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years	Total
Available-for-sale:					
Residential mortgage-backed securities:(1)					
Amortized cost	\$ 132	\$ 3,196	\$ 3,696	\$ 10,432	\$ 17,456
Estimated fair value	133	3,303	4,147	11,050	18,633
Weighted average yield(3)	5.54 %	4.70 %	5.54 %	2.69 %	3.68 %
Municipals:(2)					
Amortized cost	275	289	—	—	564
Estimated fair value	275	291	—	—	566
Weighted average yield(3)	5.61 %	5.76 %	—	—	5.69 %
Equity securities:(4)					
Amortized cost	8,304	—	—	—	8,304
Estimated fair value	8,173	—	—	—	8,173
Total available-for-sale securities:					
Amortized cost					\$ 26,324
Estimated fair value					\$ 27,372

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	December 31, 2015					Total
	Less Than One Year	After One Through Five Years	After Five Through Ten Years	After Ten Years		
Available-for-sale:						
Residential mortgage-backed securities:(1)						
Amortized cost	\$214	\$4,655	\$4,265	\$11,402		\$20,536
Estimated fair value	217	4,837	4,747	12,100		21,901
Weighted average yield(3)	5.62 %	4.71 %	5.54 %	2.53 %		3.68 %
Municipals:(2)						
Amortized cost	265	563	—	—		828
Estimated fair value	265	566	—	—		831
Weighted average yield(3)	5.46 %	5.69 %	— %	— %		5.62 %
Equity securities:(4)						
Amortized cost	7,522	—	—	—		7,522
Estimated fair value	7,260	—	—	—		7,260
Total available-for-sale securities:						
Amortized cost						\$28,886
Estimated fair value						\$29,992

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

(2) Yields have been adjusted to a tax equivalent basis assuming a 35% federal tax rate.

(3) Yields are calculated based on amortized cost.

(4) These equity securities do not have a stated maturity.

Securities with carrying values of approximately \$15.8 million were pledged to secure certain borrowings and deposits at June 30, 2016. Of the pledged securities at June 30, 2016, approximately \$3.8 million were pledged for certain deposits, and approximately \$12.0 million were pledged for repurchase agreements.

The following table discloses, as of June 30, 2016 and December 31, 2015, our investment 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 (in thousands):

June 30, 2016	Less Than 12 Months	12 Months or Longer	Total	
	Fair Unrealized Value Loss	Fair Unrealized Value Loss	Fair Value	Unrealized Loss
Equity securities	\$ —	\$ (6,309)	\$ (191)	\$ (6,309)

December 31, 2015	Less Than 12 Months	12 Months or Longer	Total	
	Fair Unrealized Value Loss	Fair Unrealized Value Loss	Fair Value	Unrealized Loss
Equity securities	\$ —	\$ (6,227)	\$ (273)	\$ (6,227)

At June 30, 2016, we owned one security with an unrealized loss position. This security is a publicly traded equity fund and is subject to market pricing volatility. We do not believe this unrealized loss is "other-than-temporary". We have evaluated the near-term prospects of the investment in relation to the severity and duration of the impairment and based on that evaluation have the ability and intent to hold the investment until recovery of fair value.

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## (4) LOANS HELD FOR INVESTMENT AND ALLOWANCE FOR LOAN LOSSES

At June 30, 2016 and December 31, 2015, loans held for investment were as follows (in thousands):

	June 30, 2016	December 31, 2015
Commercial	\$7,178,364	\$6,672,631
Mortgage finance	5,260,027	4,966,276
Construction	2,023,725	1,851,717
Real estate	3,228,853	3,139,197
Consumer	26,283	25,323
Leases	103,565	113,996
Gross loans held for investment	17,820,817	16,769,140
Deferred income (net of direct origination costs)	(58,277 )	(57,190 )
Allowance for loan losses	(167,397 )	(141,111 )
Total loans held for investment	\$17,595,143	\$16,570,839

Commercial Loans and Leases. Our commercial loan portfolio is comprised of lines of credit for working capital and term loans and leases to finance equipment and other business assets. Our energy production loans are generally collateralized with proven reserves based on appropriate valuation standards and take into account the risk of oil and gas price volatility. Our commercial loans and leases are underwritten after carefully evaluating and understanding the borrower's ability to operate profitably. Our underwriting standards are designed to promote relationship banking rather than to make loans on a transaction basis. Our lines of credit typically are limited to a percentage of the value of the assets securing the line. Lines of credit and term loans typically are reviewed annually, or more frequently, as needed, and are supported by accounts receivable, inventory, equipment and other assets of our clients' businesses.

Mortgage Finance Loans. Our mortgage finance loans consist of ownership interests purchased in single-family residential mortgages funded through our mortgage finance group. These loans are typically held on our balance sheet for 10 to 20 days. We have agreements with mortgage lenders and purchase interests in individual loans they originate. All loans are underwritten consistent with established programs for permanent financing with financially sound investors. Substantially all loans are conforming loans. June 30, 2016 and December 31, 2015 balances are stated net of \$844.2 million and \$454.8 million participations sold, respectively.

Construction Loans. Our construction loan portfolio consists primarily of single- and multi-family residential properties and commercial projects used in manufacturing, warehousing, service or retail businesses. Our construction loans generally have terms of one to three years. We typically make construction loans to developers, builders and contractors that have an established record of successful project completion and loan repayment and have a substantial equity investment in the borrowers. Loan amounts are derived primarily from the Bank's evaluation of expected cash flows available to service debt from stabilized projects under hypothetically stressed conditions. Construction loans are also based in part upon estimates of costs and value associated with the completed project. Sources of repayment for these types of loans may be pre-committed permanent loans from other lenders, sales of developed property, or an interim loan commitment from us until permanent financing is obtained. The nature of these loans makes ultimate repayment sensitive to overall economic conditions. Borrowers may not be able to correct conditions of default in loans, increasing risk of exposure to classification, non-performing status, reserve allocation and actual credit loss and foreclosure. These loans typically have floating rates and commitment fees.

Real Estate Loans. A portion of our real estate loan portfolio is comprised of loans secured by properties other than market risk or investment-type real estate. Market risk loans are real estate loans where the primary source of repayment is expected to come from the sale, permanent financing or lease of the real property collateral. We generally provide temporary financing for commercial and residential property. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Our real estate loans generally have maximum terms of five to seven years, and we provide loans with both floating and fixed rates. We generally avoid long-term loans for commercial real estate held for investment. Real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Appraised values may be highly variable due to market conditions and the



impact of the inability of potential purchasers and lessees to obtain financing and a lack of transactions at comparable values.

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At June 30, 2016 and December 31, 2015, we had a blanket floating lien on certain real estate-secured loans, mortgage finance loans and certain securities used as collateral for Federal Home Loan Bank (“FHLB”) borrowings.

Summary of Loan Loss Experience

The allowance for loan losses is comprised of specific reserves for impaired loans and an additional qualitative reserve based on our estimate of losses inherent in the portfolio at the balance sheet date, but not yet identified with specified loans. We consider the allowance at June 30, 2016 to be appropriate, given management's assessment of losses inherent in the portfolio as of the evaluation date, the significant growth in the loan and lease portfolio, current economic conditions in our market areas and other factors.

The following tables summarize the credit risk profile of our loan portfolio by internally assigned grades and non-accrual status as of June 30, 2016 and December 31, 2015 (in thousands):

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June 30, 2016

	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Total
Grade:							
Pass	\$ 6,775,659	\$ 5,260,027	\$ 2,010,421	\$ 3,182,419	\$ 26,018	\$ 99,169	\$ 17,353,713
Special mention	87,456	—	1,525	35,056	—	—	124,037
Substandard-accruing	152,624	—	11,779	8,574	265	4,396	177,638
Non-accrual	162,625	—	—	2,804	—	—	165,429
Total loans held for investment	\$ 7,178,364	\$ 5,260,027	\$ 2,023,725	\$ 3,228,853	\$ 26,283	\$ 103,565	\$ 17,820,817

December 31, 2015

	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Total
Grade:							
Pass	\$ 6,375,332	\$ 4,966,276	\$ 1,821,678	\$ 3,085,463	\$ 25,093	\$ 103,560	\$ 16,377,402
Special mention	111,911	—	13,090	30,585	3	334	155,923
Substandard-accruing	46,731	—	281	3,837	227	4,951	56,027
Non-accrual	138,657	—	16,668	19,312	—	5,151	179,788
Total loans held for investment	\$ 6,672,631	\$ 4,966,276	\$ 1,851,717	\$ 3,139,197	\$ 25,323	\$ 113,996	\$ 16,769,140

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The following table details activity in the allowance for loan losses by portfolio segment for the six months ended June 30, 2016 and June 30, 2015. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

June 30, 2016

(in thousands)	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Additional Qualitative Reserve	Total
Beginning balance	\$ 112,446	\$ —	\$ 6,836	\$ 13,381	\$ 338	\$ 3,931	\$ 4,179	\$ 141,111
Provision for loan losses	44,324	—	758	1,423	(28 )	(2,531 )	1,710	45,656
Charge-offs	24,287	—	—	528	—	—	—	24,815
Recoveries	5,334	—	34	21	11	45	—	5,445
Net charge-offs (recoveries)	18,953	—	(34 )	507	(11 )	(45 )	—	19,370
Ending balance	\$ 137,817	\$ —	\$ 7,628	\$ 14,297	\$ 321	\$ 1,445	\$ 5,889	\$ 167,397
Period end amount allocated to:								
Loans individually evaluated for impairment	\$ 30,775	\$ —	\$ —	\$ 196	\$ —	\$ —	\$ —	\$ 30,971
Loans collectively evaluated for impairment	107,042	—	7,628	14,101	321	1,445	5,889	136,426
Ending balance	\$ 137,817	\$ —	\$ 7,628	\$ 14,297	\$ 321	\$ 1,445	\$ 5,889	\$ 167,397

June 30, 2015

(in thousands)	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Additional Qualitative Reserve	Total
Beginning balance	\$ 70,654	\$ —	\$ 7,935	\$ 15,582	\$ 240	\$ 1,141	\$ 5,402	\$ 100,954
Provision for loan losses	37,666	—	(4,066 )	(6,509 )	144	(831 )	(1,778 )	24,626
Charge-offs	8,520	—	—	346	62	—	—	8,928
Recoveries	1,710	—	355	20	10	23	—	2,118
Net charge-offs (recoveries)	6,810	—	(355 )	326	52	(23 )	—	6,810
Ending balance	\$ 101,510	\$ —	\$ 4,224	\$ 8,747	\$ 332	\$ 333	\$ 3,624	\$ 118,770
Period end amount allocated to:								
Loans individually evaluated for impairment	\$ 13,717	\$ —	\$ —	\$ 337	\$ —	\$ 1	\$ —	\$ 14,055
Loans collectively evaluated for impairment	87,793	—	4,224	8,410	332	332	3,624	104,715
Ending balance	\$ 101,510	\$ —	\$ 4,224	\$ 8,747	\$ 332	\$ 333	\$ 3,624	\$ 118,770

We have traditionally maintained an additional qualitative reserve component to compensate for the uncertainty and complexity in estimating loan and lease losses including factors and conditions that may not be fully reflected in the determination and application of the allowance allocation percentages. We believe the level of additional qualitative reserve at June 30, 2016 is warranted due to the continued uncertain economic environment which has produced losses, including those resulting from borrowers' misstatement of financial information or inaccurate certification of collateral values. Such losses are not necessarily correlated with historical loss trends or general economic conditions. Our methodology used to calculate the allowance considers historical losses; however, the historical loss rates for specific product types or credit risk grades may not fully incorporate the effects of continued weakness in the economy and continued volatility in the energy sector.

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Our recorded investment in loans as of June 30, 2016, December 31, 2015 and June 30, 2015 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of our impairment methodology was as follows (in thousands):

June 30, 2016

	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Total
Loans individually evaluated for impairment	\$ 164,339	\$—	\$—	\$ 4,210	\$—	\$—	\$ 168,549
Loans collectively evaluated for impairment	7,014,025	5,260,027	2,023,725	3,224,643	26,283	103,565	17,652,268
Total	\$ 7,178,364	\$ 5,260,027	\$ 2,023,725	\$ 3,228,853	\$ 26,283	\$ 103,565	\$ 17,820,817

December 31, 2015

	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Total
Loans individually evaluated for impairment	\$ 140,479	\$—	\$ 16,668	\$ 21,042	\$—	\$ 5,151	\$ 183,340
Loans collectively evaluated for impairment	6,532,152	4,966,276	1,835,049	3,118,155	25,323	108,845	16,585,800
Total	\$ 6,672,631	\$ 4,966,276	\$ 1,851,717	\$ 3,139,197	\$ 25,323	\$ 113,996	\$ 16,769,140

June 30, 2015

	Commercial	Mortgage Finance	Construction	Real Estate	Consumer	Leases	Total
Loans individually evaluated for impairment	\$ 93,944	\$—	\$ 16,749	\$ 10,565	\$—	\$ 6,437	\$ 127,695
Loans collectively evaluated for impairment	6,294,763	4,906,415	1,820,783	2,823,440	23,789	90,588	15,959,778
Total	\$ 6,388,707	\$ 4,906,415	\$ 1,837,532	\$ 2,834,005	\$ 23,789	\$ 97,025	\$ 16,087,473

Generally we place loans on non-accrual when there is a clear indication that the borrower's cash flow may not be sufficient to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on non-accrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining unpaid principal amount of the loan is deemed to be fully collectible. If collectability is questionable, then cash payments are applied to principal. As of June 30, 2016, \$820,000 of our non-accrual loans were earning on a cash basis compared to \$884,000 at December 31, 2015. A loan is placed back on accrual status when both principal and interest are current and it is probable that we will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

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A loan held for investment is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the terms of the loan agreement. In accordance with ASC 310 Receivables ("ASC 310"), we have also included all restructured loans in our impaired loan totals. The following tables detail our impaired loans, by portfolio class, as of June 30, 2016 and December 31, 2015 (in thousands):

June 30, 2016

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial					
Business loans	\$ 11,979	\$ 14,228	\$ —	—\$ 8,943	\$ —
Energy	72,834	81,014	—	45,410	—
Construction					
Market risk	—	—	—	5,556	—
Real estate					
Market risk	—	—	—	—	—
Commercial	2,091	2,091	—	6,879	18
Secured by 1-4 family	—	—	—	—	—
Consumer	—	—	—	—	—
Leases	—	—	—	806	—
Total impaired loans with no allowance recorded	\$ 86,904	\$ 97,333	\$ —	—\$ 67,594	\$ 18
With an allowance recorded:					
Commercial					