

TEXAS CAPITAL BANCSHARES INC/TX
Form 10-Q
April 20, 2017
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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, 2017
¨ 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

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 ý Accelerated Filer ¨

Non-Accelerated Filer Smaller Reporting 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

APPLICABLE ONLY TO CORPORATE ISSUERS:

On April 19, 2017, 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 49,564,933

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEXAS CAPITAL BANCSHARES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	March 31, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	\$ 116,013	\$ 113,707
Interest-bearing deposits	2,779,921	2,700,645
Federal funds sold and securities purchased under resale agreements	25,000	25,000
Securities, available-for-sale	42,203	24,874
Loans held for sale, at fair value	884,647	968,929
Loans held for investment, mortgage finance	3,371,598	4,497,338
Loans held for investment (net of unearned income)	13,298,918	13,001,011
Less: Allowance for loan losses	172,013	168,126
Loans held for investment, net	16,498,503	17,330,223
Mortgage servicing rights, net	45,526	28,536
Premises and equipment, net	20,831	19,775
Accrued interest receivable and other assets	432,835	465,933
Goodwill and intangible assets, net	19,395	19,512
Total assets	\$ 20,864,874	\$ 21,697,134
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	\$ 7,094,696	\$ 7,994,201
Interest-bearing	9,510,684	9,022,630
Total deposits	16,605,380	17,016,831
Accrued interest payable	3,293	5,498
Other liabilities	169,385	161,223
Federal funds purchased and repurchase agreements	141,834	109,575
Other borrowings	1,500,000	2,000,000
Subordinated notes, net	281,134	281,044
Trust preferred subordinated debentures	113,406	113,406
Total liabilities	18,814,432	19,687,577
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, 2017 and December 31, 2016	150,000	150,000
Common stock, \$.01 par value:		
Authorized shares – 100,000,000		
Issued shares – 49,560,517 and 49,504,079 at March 31, 2017 and December 31, 2016, respectively	496	495
Additional paid-in capital	956,246	955,468
Retained earnings	943,291	903,187
Treasury stock (shares at cost: 417 at March 31, 2017 and December 31, 2016)	(8) (8
Accumulated other comprehensive income, net of taxes	417	415
Total stockholders' equity	2,050,442	2,009,557

Total liabilities and stockholders' equity	\$20,864,874	\$21,697,134
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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 March 31,	
	2017	2016
Interest income		
Interest and fees on loans	\$ 176,624	\$ 155,885
Securities	225	261
Federal funds sold and securities purchased under resale agreements	530	372
Deposits in other banks	6,567	3,285
Total interest income	183,946	159,803
Interest expense		
Deposits	13,293	8,822
Federal funds purchased	252	126
Repurchase agreements	1	3
Other borrowings	2,020	1,162
Subordinated notes	4,191	4,191
Trust preferred subordinated debentures	830	716
Total interest expense	20,587	15,020
Net interest income	163,359	144,783
Provision for credit losses	9,000	30,000
Net interest income after provision for credit losses	154,359	114,783
Non-interest income		
Service charges on deposit accounts	3,045	2,110
Wealth management and trust fee income	1,357	813
Bank owned life insurance (BOLI) income	466	536
Brokered loan fees	5,678	4,645
Servicing income	2,201	(55)
Swap fees	1,803	307
Other	2,560	2,941
Total non-interest income	17,110	11,297
Non-interest expense		
Salaries and employee benefits	63,003	51,372
Net occupancy expense	6,111	5,812
Marketing	4,950	3,908
Legal and professional	7,453	5,324
Communications and technology	6,506	6,217
FDIC insurance assessment	5,994	5,469
Servicing related expenses	1,750	73
Other	10,327	8,645
Total non-interest expense	106,094	86,820
Income before income taxes	65,375	39,260
Income tax expense	22,833	14,132
Net income	42,542	25,128
Preferred stock dividends	2,438	2,438
Net income available to common stockholders	\$ 40,104	\$ 22,690
Other comprehensive income (loss)		
Change in net unrealized gain on available-for-sale securities arising during period, before-tax	\$ 3	\$(38)

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Income tax expense/(benefit) related to net unrealized gain on available-for-sale securities	1	(14)
Other comprehensive income/(loss), net of tax	2	(24)
Comprehensive income	\$42,544	\$25,104	

Basic earnings per common share	\$0.81	\$0.49
Diluted earnings per common share	\$0.80	\$0.49

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			Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income Total (Loss), Net of Taxes	
	Shares	Amount	Shares	Amount	Additional Paid-in Capital		Shares	Amount		
Balance at December 31, 2015 (audited)	6,000,000	\$150,000	45,874,224	\$459	\$714,546	\$757,818	(417)	\$(8)	\$718	\$1,623,533
Comprehensive income:										
Net income	—	—	—	—	—	25,128	—	—	—	25,128
Change in unrealized gain on available-for-sale securities, net of taxes of \$14	—	—	—	—	—	—	—	—	(24)	(24)
Total comprehensive income										25,104
Tax benefit related to exercise of stock-based awards	—	—	—	—	40	—	—	—	—	40
Stock-based compensation expense recognized in earnings	—	—	—	—	1,132	—	—	—	—	1,132
Preferred stock dividend	—	—	—	—	—	(2,438)	—	—	—	(2,438)
Issuance of stock related to stock-based awards	—	—	28,682	—	(283)	—	—	—	—	(283)
Balance at March 31, 2016	6,000,000	\$150,000	45,902,906	\$459	\$715,435	\$780,508	(417)	\$(8)	\$694	\$1,647,088
Balance at December 31, 2016 (audited)	6,000,000	\$150,000	49,504,079	\$495	\$955,468	\$903,187	(417)	\$(8)	\$415	\$2,009,557
Comprehensive income:										

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Net income	—	—	—	—	—	42,542	—	—	—	42,542
Change in unrealized gain on available-for-sale securities, net of taxes of \$1	—	—	—	—	—	—	—	—	2	2
Total comprehensive income										42,544
Stock-based compensation expense recognized in earnings	—	—	—	—	1,669	—	—	—	—	1,669
Preferred stock dividend	—	—	—	—	—	(2,438)	—	—	—	(2,438)
Issuance of stock related to stock-based awards	—	—	22,843	1	(891)	—	—	—	—	(890)
Issuance of common stock related to warrants	—	—	33,595	—	—	—	—	—	—	—
Balance at March 31, 2017	6,000,000	\$150,000	49,560,517	\$496	\$956,246	\$943,291	(417)	\$(8)	\$417	\$2,050,442

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,	
	2017	2016
Operating activities		
Net income	\$42,542	\$25,128
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	9,000	30,000
Depreciation and amortization	6,216	5,092
Bank owned life insurance (BOLI) income	(466)	(536)
Stock-based compensation expense	4,559	459
Excess tax benefits from stock-based compensation arrangements	—	(109)
Purchases of loans held for sale	(1,299,542)	(364,919)
Proceeds from sales and repayments of loans held for sale	1,379,834	352,668
(Gain) loss on sale of loans held for sale and other assets	988	104
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	19,548	(48,756)
Accrued interest payable and other liabilities	(927)	6,173
Net cash provided by operating activities	161,752	5,304
Investing activities		
Purchases of available-for-sale securities	(18,832)	(391)
Maturities and calls of available-for-sale securities	275	264
Principal payments received on available-for-sale securities	1,231	1,620
Originations of mortgage finance loans	(15,100,024)	(19,706,715)
Proceeds from pay-offs of mortgage finance loans	16,225,764	19,691,687
Net increase in loans held for investment, excluding mortgage finance loans	(303,595)	(321,571)
Purchase of premises and equipment, net	(2,597)	(859)
Proceeds from sale of foreclosed assets	128	62
Net cash provided by (used in) investing activities	802,350	(335,903)
Financing activities		
Net increase (decrease) in deposits	(411,451)	1,214,228
Costs from issuance of stock related to stock-based awards and warrants	(890)	(283)
Preferred dividends paid	(2,438)	(2,438)
Net increase in other borrowings	(500,000)	104,000
Excess tax benefits from stock-based compensation arrangements	—	109
Net increase (decrease) in Federal funds purchased and repurchase agreements	32,259	(42,192)
Net cash provided by (used in) financing activities	(882,520)	1,273,424
Net increase in cash and cash equivalents	81,582	942,825
Cash and cash equivalents at beginning of period	2,839,352	1,790,870
Cash and cash equivalents at end of period	\$2,920,934	\$2,733,695
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$22,792	\$17,237
Cash paid during the period for income taxes	482	333
Transfers from loans/leases to OREO and other repossessed assets	—	17,398
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 clientèle 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. In that regard, ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," ("ASU 2016-09") became effective for us on January 1, 2017. ASU 2016-09 requires that excess tax benefits and deficiencies be recognized as a component of income taxes within the income statement. Additionally, ASU 2016-09 requires that all income tax-related cash flows resulting from share-based payments be reported as operating activities in the statement of cash flows. Previously, income tax benefits at award settlement were reported as a reduction to operating cash flows and an increase to financing cash flows to the extent that those benefits exceeded the income tax benefits reported in earnings during the award's vesting period. We have elected to apply that change in cash flow presentation on a prospective basis. ASU 2016-09 also requires that companies make an accounting policy election regarding forfeitures, to either estimate the number of awards that are expected to vest or account for them when they occur. We have elected to recognize forfeitures as they occur. The impact of this change and that of the remaining provisions of ASU 2016-09 did not have a significant impact on our financial statements.

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, 2016, included in our Annual Report on Form 10-K filed with the SEC on February 17, 2017 (the “2016 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