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

ýQuarterly 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 incorporation or organization)	(I.R.S. Employer 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 ¨

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 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

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 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)

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				Treasury Stock			
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
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

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,	
	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	45,906,508	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	46,396,606	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

(1) Stock options, SARs and RSUs outstanding of 252,754 at June 30, 2016 and 173,382 at June 30, 2015 have not 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				
	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	$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 Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equity securities	$ —	$ —	$6,309	$ (191)	$6,309	$ (191)

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

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					
Business loans	$ 24,891	$ 32,350	$ 7,675	$ 21,166	$ —
Energy	54,635	58,398	23,100	82,613	12
Construction					
Market risk	—	—	—	—	—
Real estate					
Market risk	1,406	1,406	21	4,625	—
Commercial	—	—	—	—	—
Secured by 1-4 family	713	713	175	410	—
Consumer	—	—	—	—	—
Leases	—	—	—	1,083	—
Total impaired loans with an allowance recorded	$ 81,645	$ 92,867	$ 30,971	$ 109,897	$ 12
Combined:					
Commercial					
Business loans	$ 36,870	$ 46,578	$ 7,675	$ 30,109	$ —
Energy	127,469	139,412	23,100	128,023	12
Construction					
Market risk	—	—	—	5,556	—
Real estate					
Market risk	1,406	1,406	21	4,625	—
Commercial	2,091	2,091	—	6,879	18
Secured by 1-4 family	713	713	175	410	—
Consumer	—	—	—	—	—
Leases	—	—	—	1,889	—
Total impaired loans	$ 168,549	$ 190,200	$ 30,971	$ 177,491	$ 30

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December 31, 2015

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial					
Business loans	$ 11,097	$ 13,529	$ —	$ 17,311	$ —
Energy	37,968	37,968	—	21,791	36
Construction					
Market risk	16,668	16,668	—	9,764	—
Real estate					
Market risk	—	—	—	3,352	—
Commercial	15,353	15,353	—	4,364	24
Secured by 1-4 family	—	—	—	—	—
Consumer	—	—	—	—	—
Leases	2,417	2,417	—	3,233	—
Total impaired loans with no allowance recorded	$ 83,503	$ 85,935	$ —	$ 59,815	$ 60
With an allowance recorded:					
Commercial					
Business loans	$ 20,983	$ 25,300	$ 5,737	$ 31,131	$ —
Energy	70,431	70,431	14,103	6,641	—
Construction					
Market risk	—	—	—	—	—
Real estate					
Market risk	5,335	5,335	1,066	2,558	—
Commercial	—	—	—	306	—
Secured by 1-4 family	354	354	125	1,580	—
Consumer	—	—	—	10	—
Leases	2,734	2,734	2,436	302	—
Total impaired loans with an allowance recorded	$ 99,837	$ 104,154	$ 23,467	$ 42,528	$ —
Combined:					
Commercial					
Business loans	$ 32,080	$ 38,829	$ 5,737	$ 48,442	$ —
Energy	108,399	108,399	14,103	28,432	36
Construction					
Market risk	16,668	16,668	—	9,764	—
Real estate					
Market risk	5,335	5,335	1,066	5,910	—
Commercial	15,353	15,353	—	4,670	24
Secured by 1-4 family	354	354	125	1,580	—
Consumer	—	—	—	10	—
Leases	5,151	5,151	2,436	3,535	—
Total impaired loans	$ 183,340	$ 190,089	$ 23,467	$ 102,343	$ 60

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Average impaired loans outstanding during the six months ended June 30, 2016 and 2015 totaled $177.5 million and $74.4 million, respectively.
The table below provides an age analysis of our loans held for investment as of June 30, 2016 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days and Accruing(1)	Total Past Due	Non-accrual	Current	Total
Commercial							
Business loans	$ 20,136	$ 11,926	$ 5,019	$ 37,081	$ 35,155	$ 6,055,437	$ 6,127,673
Energy	880	5,790	—	6,670	127,470	916,551	1,050,691
Mortgage finance loans	—	—	—	—	—	5,260,027	5,260,027
Construction							
Market risk	5,988	160	—	6,148	—	2,006,965	2,013,113
Secured by 1-4 family	—	—	—	—	—	10,612	10,612
Real estate							
Market risk	2,730	1,461	935	5,126	—	2,425,918	2,431,044
Commercial	321	—	—	321	2,091	642,310	644,722
Secured by 1-4 family	8,290	—	1,551	9,841	713	142,533	153,087
Consumer	462	—	238	700	—	25,583	26,283
Leases	—	—	—	—	—	103,565	103,565
Total loans held for investment	$ 38,807	$ 19,337	$ 7,743	$ 65,887	$ 165,429	$ 17,589,501	$ 17,820,817

(1) Loans past due 90 days and still accruing includes premium finance loans of $5.0 million. These loans are generally secured by obligations of insurance carriers to refund premiums on canceled insurance policies. The refund of premiums from the insurance carriers can take 180 days or longer from the cancellation date.

Restructured loans are loans on which, due to the borrower's financial difficulties, we have granted a concession that we would not otherwise consider for borrowers of similar credit quality. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, or a combination of the two. Modifications of terms that could potentially qualify as a restructuring include reduction of the contractual interest rate, extension of the maturity date at a contractual interest rate lower than the current rate for new debt with similar risk, a reduction of the face amount of debt or forgiveness of either principal or accrued interest. At June 30, 2016 and December 31, 2015, we had $249,000 in loans considered restructured that were not on non-accrual. These loans did not have unfunded commitments at June 30, 2016 or December 31, 2015. Of the non-accrual loans at June 30, 2016 and December 31, 2015, $33.3 million and $24.9 million, respectively, met the criteria for restructured. These loans had no unfunded commitments at their respective balance sheet dates. A loan continues to qualify as restructured until a consistent payment history or change in borrower's financial condition has been evidenced, generally over no less than twelve months. Assuming that the restructuring agreement specifies an interest rate at the time of the restructuring that is greater than or equal to the rate that we are willing to accept for a new extension of credit with comparable risk, then the loan no longer has to be considered a restructuring if it is in compliance with the modified terms in calendar years after the year of the restructure.

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The following tables summarize, for the six months ended June 30, 2016 and 2015, loans that were restructured during 2016 and 2015 (in thousands):

June 30, 2016

	Number of Restructured Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment
Energy loans	2	$ 14,235	$ 14,054
Commercial business loans	—	$ —	$ —
Total new restructured loans in 2016	2	$ 14,235	$ 14,054

June 30, 2015

	Number of Restructured Loans	Pre-Restructuring Outstanding Recorded Investment	Post-Restructuring Outstanding Recorded Investment
Commercial business loans	4	$ 18,329	$ 16,960
Total new restructured loans in 2015	4	$ 18,329	$ 16,960

The restructured loans generally include terms to temporarily place loans on interest only, extend the payment terms or reduce the interest rate. We did not forgive any principal on the above loans. The restructuring of the loans did not have a significant impact on our allowance for loan losses at June 30, 2016 or 2015.

The following table provides information on how restructured loans were modified during the six months ended June 30, 2016 and 2015 (in thousands):

	Six months ended June 30,	
	2016	2015
Extended maturity	$—	$—
Adjusted payment schedule	12,735	—
Combination of maturity extension and payment schedule adjustment	1,319	16,960
Total	$14,054	$16,960

As of June 30, 2016 and 2015, we did not have any loans that were restructured within the last 12 months that subsequently defaulted.

(5) OREO AND VALUATION ALLOWANCE FOR LOSSES ON OREO

The table below presents a summary of the activity related to OREO (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Beginning balance	$17,585	$605	$278	$568
Additions	1,142	85	18,540	1,177
Sales	—	(81)	(91)	(1,136)
Valuation allowance for OREO	—	—	—	—
Direct write-downs	—	—	—	—
Ending balance	$18,727	$609	$18,727	$609

The addition to OREO relates to the foreclosure of two commercial properties during the six months ended June 30, 2016.

(6) CERTAIN TRANSFERS OF FINANCIAL ASSETS

Through our Mortgage Correspondent Aggregation ("MCA") business, we commit to purchase residential mortgage loans from correspondent lenders and deliver those loans into the secondary market via whole loan sales to independent third parties or in securitization transactions to government sponsored entities ("GSEs") such as Fannie Mae, Freddie Mac or Ginnie Mae. We have elected to carry these loans at fair value based on sales commitments and market quotes. Changes in the fair value of the loans held for sale are included in other non-interest income.

Residential mortgage loans are subject to both credit and interest rate risk. Credit risk is managed through underwriting policies and procedures, including collateral requirements, which are generally accepted by the secondary loan markets. Exposure to interest rate fluctuations is partially managed through forward sales contracts, which set the price for loans that will be delivered in the next 60 to 90 days.

The table below presents the unpaid principal balance of loans held for sale and related fair values at June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Unpaid principal balance	209,617	82,853
Fair value	221,347	86,075
Fair value over/(under) unpaid principal balance	11,730	3,222

No loans held for sale were 90 days or more past due or on non-accrual as of June 30, 2016 and December 31, 2015.

The differences between the fair value and the aggregate unpaid principal balance include changes in fair value recorded at and subsequent to purchase, gains and losses on the related loan purchase commitment prior to purchase and premiums or discounts on acquired loans.

We generally retain the right to service the loans sold, creating mortgage servicing rights ("MSRs") which are recorded as assets on our balance sheet. A summary of MSR activities for the six months ended June 30, 2016 is as follows (in thousands):

Servicing asset:	
Balance, beginning of year(1)	$423
Capitalized servicing rights	8,805
Amortization	(271)
Balance, end of period	8,957
Valuation allowance:	
Balance, beginning of year	$—
Increase in valuation allowance	$414
Balance, end of period	$414
Servicing asset, net(1)	$8,543

(1) Mortgage servicing rights are reported on the consolidated balance sheets at lower of cost or market. Carrying value and fair value were the same at June 30, 2016 and December 31, 2015, respectively.

At June 30, 2016 and December 31, 2015, our servicing portfolio of residential mortgage loans sold included 2,885 and 168 loans, respectively, with an outstanding principal balance of $736.3 million and $39.0 million, respectively. In connection with the servicing of these loans, we maintain escrow funds for taxes and insurance in the name of investors, as well as collections in transit to investors. These escrow funds are segregated and held in separate non-interest-bearing bank accounts at the Bank. These deposits, included in total non-interest-bearing deposits on the consolidated balance sheets, were $9.0 million at June 30, 2016 and $240,000 at December 31, 2015.

As of June 30, 2016 and December 31, 2015, management used the following assumptions to determine the fair value of MSRs:

	June 30, 2016	December 31, 2015
Average discount rates	10.02 %	9.76 %
Expected prepayment speeds	12.25 %	9.66 %

Weighted average life, in years 6.1

In conjunction with the sale and securitization of loans held for sale, we may be exposed to liability resulting from recourse agreements and repurchase agreements. If it is determined subsequent to our sale of a loan that the loan sold is in breach of the representations or warranties made in the applicable sale agreement, we may have an obligation to either (a) repurchase the loan for the unpaid principal balance, accrued interest and related advances, (b) indemnify the purchaser against any loss it suffers or (c) make the purchaser whole for the economic benefits of the loan. During the six months ended June 30, 2016, we originated or purchased and sold approximately $712.5 million of mortgage loans to GSEs.

Our repurchase, indemnification and make whole obligations vary based upon the terms of the applicable agreements, the nature of the asserted breach and the status of the mortgage loan at the time a claim is made. We establish reserves for estimated losses of this nature inherent in the origination of mortgage loans by estimating the losses inherent in the population of all loans sold based on trends in claims and actual loss severities experienced. The reserve will include accruals for probable contingent losses in addition to those identified in the pipeline of claims received. The estimation process is designed to include amounts based on actual losses experienced from actual repurchase activity. Because the MCA business commenced in late 2015, we have no historical data to support the establishment of a reserve. The baseline for the repurchase reserve uses historical loss factors obtained from industry data that are applied to loan pools originated and sold from September 2015 through June 30, 2016. The historical industry data loss factors and experienced losses are accumulated for each sale vintage (year loan was sold) and applied to more recent sale vintages to estimate inherent losses not yet realized. Our estimated exposure related to these loans was $363,000 at June 30, 2016 and is recorded in other liabilities in the consolidated balance sheets. We had no losses due to repurchase, indemnification or make-whole obligations during the six months ended June 30, 2016.

(7) FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit that involve varying degrees of credit risk in excess of the amount recognized in the consolidated balance sheets. The Bank’s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary, is based on management’s credit evaluation of the borrower.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer’s credit-worthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The table below summarizes our off-balance sheet financial instruments whose contract amounts represented credit risk (in thousands):

	June 30, 2016	December 31, 2015
Commitments to extend credit	$5,444,161	$5,542,363
Standby letters of credit	189,178	182,219

(8) REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Company’s and the

Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company’s and the Bank’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company’s and the Bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Basel III regulatory capital framework applicable to the Company and the Bank (the "Basel III Capital Rules") specifies, among other things, (i) a "Common Equity Tier 1" ("CET1") capital measure, (ii) a Tier 1 capital measure consisting of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) capital conservation buffers with respect to each of the CET1, Tier 1 risk-based and total risk-based capital ratios providing for capital levels that exceed the minimum risk-based capital adequacy requirements and (iv) a leverage ratio requirement of 5.0%.
In order to be well capitalized under the Basel III Capital Rules, our Bank must maintain a CET1 capital ratio, Tier 1 capital ratio and total capital ratio of greater than or equal to 6.5%, 8.0% and 10.0%, respectively. The capital conservation buffers required by the Basel III Capital Rules are subject to a three year phase-in period that began on January 1, 2016 and will be fully phased-in on January 1, 2019 at 2.5%. A financial institution with a conservation buffer of less than the required amount will be subject to limitations on capital distributions, including dividend payments and stock repurchases and executive bonus payments.
Quantitative measures established by these regulations to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of CET1, Tier 1 and total capital to risk-weighted assets, and of Tier 1 capital to average assets, each as defined in the regulations. Management believes, as of June 30, 2016, that the Company and the Bank met all capital adequacy requirements to which they are subject.
Financial institutions are categorized as well capitalized or adequately capitalized, based on minimum total risk-based, Tier 1 risk-based capital, CET1 and Tier 1 leverage ratios. As shown in the table below, the Company’s capital ratios exceeded the regulatory definition of adequately capitalized as of June 30, 2016, and December 31, 2015. Based upon the information in its most recently filed call report, the Bank met the capital ratios necessary to be well capitalized. The regulatory authorities can apply changes in classification of assets and such changes may retroactively subject the Company to changes in capital ratios. Any such changes could result in reducing one or more capital ratios below well-capitalized status. In addition, a change may result in imposition of additional assessments by the FDIC or could result in regulatory actions that could have a material adverse effect on our financial condition and results of operations.
Because our bank had less than $15.0 billion in total consolidated assets as of December 31, 2009, we are allowed to continue to classify our trust preferred securities, all of which were issued prior to May 19, 2010, as Tier 1 capital.
The table below summarizes our capital ratios:

	June 30, 2016	December 31, 2015
Company		
Risk-based capital:		
CET1	7.37 %	7.47 %
Tier 1 capital	8.64 %	8.81 %
Total capital	10.86 %	11.05 %
Tier 1 leverage	8.69 %	8.92 %

Our mortgage finance loan volumes can increase significantly at month-end, causing a meaningful difference between ending balance and average balance for any period. At June 30, 2016, our total mortgage finance loans were $5.3 billion compared to the average for the six months ended June 30, 2016 of $4.1 billion. As CET1, Tier 1 and total capital ratios are calculated using quarter-end risk-weighted assets and our mortgage finance loans are 100% risk-weighted, the quarter-end fluctuation in these balances can significantly impact our reported ratios. We manage capital allocated to mortgage finance loans based on changing trends in average balances, as well as the inherent risk associated with the assets which implies a risk weight that is significantly different than the regulatory risk weight, and do not believe that the quarter-end balance is representative of risk characteristics that would justify higher allocations. However, we continue to monitor our capital allocation to confirm that all capital levels remain above well-capitalized levels.
Dividends that may be paid by subsidiary banks are routinely restricted by various regulatory authorities. The amount that can be paid in any calendar year without prior approval of the Bank’s regulatory agencies cannot exceed the lesser of the net profits (as defined) for that year plus the net profits for the preceding two calendar years, or retained

earnings. The Basel III Capital Rules further limit the amount of dividends that may be paid by our bank. No dividends were declared or paid on common stock during the six months ended June 30, 2016 or 2015.

(9) STOCK-BASED COMPENSATION
We have stock-based compensation plans under which equity-based compensation grants are made by the board of directors, or its designated committee. Grants are subject to vesting requirements. Under the plans, we may grant, among other things, nonqualified stock options, incentive stock options, restricted stock units ("RSUs"), stock appreciation rights ("SARs"), cash-based performance units or any combination thereof. Plans include grants for employees and directors. Total shares authorized under the plans are 2,550,000.
The fair value of our option and stock appreciation right ("SAR") grants are estimated at the date of grant using the Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management’s opinion, the existing models do not necessarily provide the best single measure of the fair value of employee stock options.
Stock-based compensation consists of SARs, RSUs and cash-based performance units granted from 2010 through June 30, 2016.