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Texas Capital CEO on fallout from bank failures: 'We've been building this bank for two years for this moment'

Rob Holmes, president and CEO of Texas Capital Bank.

BY HOLDEN WILEN

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Rob Holmes, who spent more than three decades at JPMorgan Chase & Co. before becoming the first non-founder to lead Texas Capital since its inception in 1998, said his strategy intended to ensure the bank would remain financially resilient through all market and interest rate cycles. In light of the recent events, he said the strategy is working.

Rob Holmes has spent the last two years building Texas Capital Bank for this moment.

The banking industry remains under intense pressure following the recent closures of Silicon Valley Bank and Signature Bank, the second- and third-largest failures in U.S. history. Speculation continues regarding whether another domino will fall, and if it does, what bank it will be. U.S. regulators have taken drastic actions to try and quell fear and prevent a contagion, promising to backstop the deposits at the failed banks and provide additional liquidity to the financial system.

While the industry reels, Holmes remains confident in the financial position of Texas Capital, which has Texas Capital Bancshares Inc. (Nasdaq: TCBI) as its parent organization.

Holmes took charge of the Dallas-based financial giant during January 2021 and quickly implemented a complete overhaul that included expanding Texas Capital's private wealth and treasury services, adding corporate and business banking efforts, launching a broker-dealer business and moving away from loans as the primary revenue generator.

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Texas Capital had about $5 billion of on-hand cash liquidity as of Dec. 31, about 18% of total assets. That ranks third among large U.S. financial firms with at least $200 billion in assets, Holmes said. The company's tangible common equity as a percentage of total of tangible assets is 9.7%, ranking first among banks with at least $200 billion in assets or more. Its adjusted common equity tier one ratio, which adjusts for marks the securities portfolio, is 10.9%, which also ranks first.

"We rank as well capitalized, and with as much liquidity for our size as some of the best banks there are," Holmes said. "We are at the top end."

The bank sacrificed potential earnings and returns to ensure a strong balance sheet, Holmes said. In the end, he said those decisions were worth it.

"We could have chosen not to invest in technology. We could have shrunk the balance sheet and gotten rid of some liquidity," Holmes said. "We chose not to. We chose making a safe and sound financial services firm over returns, and it has proven to be the right decision. We did all the sacrifice of returns, yet we outperformed in tangible book value growth during the last two years when compared to our peers. We feel like we've made substantial strides in positioning this firm to be on offense during this period."

Holmes spoke with the Dallas Business Journal about the ongoing fallout from the Silicon Valley

Bank and Signature Bank failures. He discussed Texas Capital's position, what he's hearing from clients and what he expects to see regulators do as they continue to work to ensure the stability the banking system. This interview has been edited for clarity.

What kind of outreach have you done to customers? What are you hearing from them?

That's the great thing about where we are the timeline of our transformation. We've been telling our clients this for a long time. All of my conversations, without exception, with CEOs of clients and prospects over the past week have been constructive and encouraging. It made me really proud of the new Texas Capital brand. I had one CEO thank me for the call but tell me our banking team is executing the strategy and vision of the firm flawlessly. He knew everything about our capital position and our liquidity. He was very pleased and proud to be a Texas Capital client. That's about as good of feedback that you can get. I feel good about that.

Look, this is going to be a very volatile period for every bank and every client. When that happens, communication outreach is paramount. We're doing that every day. We don't view this as really anything but business as usual. I don't mean that casually. I understand there's a heightened sense of urgency, but we are trying to be an externally focused, client-obsessed culture every day anyway.

All of the regional bank leaders I've spoken to around North Texas remain confident in their institutions. What is Texas Capital doing strategically that's different from banks in other places around the country?

We're commercial-focused. We're working with clients' operating accounts and we fund the bank with operating accounts. We want to be relevant to our clients and have many touch points. We want to do their treasury management.

That's why we've invested in a new digital onboarding platform, a new wire platform, and a new service model and operating model where we can scale.

We onboarded more clients yesterday and Monday this week than we have in the history of the firm in one day. So what we're doing is working.

In addition to uninsured deposits, people are talking about unrealized losses on securities. According to the FDIC, banks across the U.S. are sitting on $620 billion of unrealized losses. How is Texas Capital positioned?

Here's a stat for you: Our common equity tier one ratio is industry-leading. So that's No. 1. And to further quantify that, in our security portfolio we have 10 times the amount of that in liquidity. We don't have to sell that portfolio for liquidity. We're the furthest thing in the world away from that issue.

What's different about how you and even some of your competitors here in Texas operate vs. what transpired at Silicon Valley Bank and Signature?

I don't want to speculate or participate in conjecture during a volatile time like this. I just know about Texas Capital. It's really important to fundamentally have sound banking principles.

I've read everything about the failures and understand the circumstances, but I don't think it's constructive to comment on those. It's a tragedy. A lot of people lost their jobs. By the way, those jobs aren't coming back because the cost of capital just went up in the entire banking sector. I just don't see a lot of banks dramatically growing with with a higher cost of capital. I feel sorry for those people because they're not going to get jobs as quickly as they would have a year ago. But what I would say is it's not going to happen here with us because of how we're capitalized, the liquidity we have and our deep understanding of our different deposits, deposit betas and the way they behave. We've been building this bank for two years for this moment.

The reason we've built it for two years for this moment was so that we could be in markets serving our clients. Texas is a little different. We're not immune but we will outperform. There are people saying that Texas is immune to this. I would take exception to that. What I would say is we're growing faster than the rest of the country. We're diversified in terms of industries. We have ninth-largest economy in the world. Net migration is higher here than any other place. So will we do better? Sure. But we're not immune and people shouldn't think that. We built the bank so that we can proactively be in the market supporting our clients and our communities in times like these.

You mentioned earlier you've attracted some new clients. What's the opportunity for you, and at the same time how are you going about keeping current customers who may be **looking to go to one of the bigger banks considered too big to fail?**

I think the same things that attracted our clients to us a week ago attract them to us today, which is our capital, our liquidity, our industry expertise, our advice, our local decision making, our turnaround speed, our proactiveness being in market and in their office.

I've had a dozen CEOs thank me for being the one to call them over the last two days. The CEOs of other firms may not have done that yet. According to them, they love the fact that decisions are made here in Dallas, their capital is staying in Texas and that we're here to help our Texas communities and citizens instead of reinvesting all philanthropic dollars and profits into another state. They love local decision-making. We have built the only full-service financial services firm founded and headquartered in Texas. We can take a client from business banking through their corporate lifecycle all the way up to becoming a Fortune 100 company, and they don't have to change banks. You don't outgrow us. You get to know the people that actually make the decisions about your company, especially in a tightening credit cycle. That seems pretty good to them from what they tell me.

Are you worried at all about what may happen now from a regulatory standpoint after the actions taken by the federal government?

I fully expect there to be more regulation, which would go down, probably to the community bank level, and stop there around the $10 million level. I hope the regulators are well-informed and they implement smart regulation, not just a lot of regulation. Frankly, I think some of it's warranted as evidenced by the events of the past week or so.