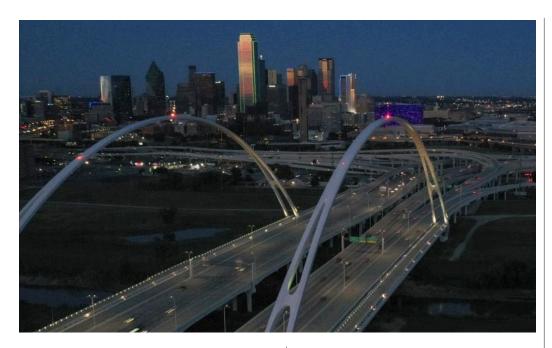# Quality matters: Uninsured deposits don't paint a complete picture of a bank's health, especially in Dallas-Fort Worth

Merely looking at a single metric can be misleading when evaluating the stability of a bank. Other factors are key, including capital structure, liquidity and effective management, according to North Texas executives.

BY HOLDEN WILEN

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Several North Texas banks have high concentrations of uninsured deposits compared to their peers, but local executives don't foresee their institutions sharing the same fate as Silicon Valley Bank and Signature Bank.

The collapse of two major U.S. banks within the span of three days has put the spotlight on other mid-cap lenders' balance sheets. Silicon Valley Bank and Signature Bank had some of the highest proportions of estimated uninsured domestic deposits across the entire industry, which made both susceptible to bank runs when depositors lost confidence and rushed to pull their money.

Local financial executives and experts have said they do not think most Texas banks are at risk of failing because, unlike Silicon Valley Bank and Signature, they have diversified portfolios that are not excessively concentrated in one industry. Silicon

Valley Bank focused mainly on serving tech startups and venture capital firms while Signature aimed to be a leader in cryptocurrency deposits.

Executives at Dallas-Fort Worth banks reiterate their balance sheets are sound and customers should remain confident. The area banks with the highest concentrations of uninsured deposits tend to be commercially focused banks, which naturally leads to higher deposit balances for their clients.

Texas Capital CEO Rob Holmes has led a transformation of the bank over the past couple of years that included expanding its 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. He said his strategy intended to ensure Texas Capital would remain financially resilient through all market and interest rate cycles.

"We have industry-lead on-hand cash liquidity and readily available

contingent liquidity, which combined, totals close to 150% of uninsured deposits," Holmes said. "And our uninsured deposits are totally in line with other commercial-focused banks. We aren't an outlier."

Within the first months of becoming CEO in 2021, Holmes completed three deals he said improved the bank's capital position by 270 basis points within weeks. The bank 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, Holmes said.

Holmes also said looking at one metric can be misleading. Bank executives manage their balance sheets and income statements "all in concert," he said. At Texas Capital, Holmes said he and his team have "very direct and disciplined liquidity management" and "an outflow process where we understand the granularity of our deposits."

"I do think that the overall context of overall liquidity and capital structure really matters," Holmes said. "The quality of deposits you're talking about, the on-hand liquidity and the contingent liquidity – all those things really, really matter. The reason we have we have so much liquidity in capital is because of the uninsured deposits. We are fully covered and really pleased with where we are in capital liquidity."

A review of Federal Deposit Insurance Corp. data by the Dallas Business Journal found the 25 largest locally headquartered banks have an average concentration of uninsured deposits of 41.6%. By comparison, the 100 largest banks in the U.S. by assets have an average concentration of 44.5%,

according to Raymond James.

Three local banks rank among the top 20 on the Raymond James list: Comerica Bank, Texas Capital and Independent Bank. Including those three, nine banks in the DBJ's review had concentrations greater than 50%.

Farmers Branch-based TIB had the highest concentration at 91%. TIB, known as the "bankers' bank," operates quite differently from most other financial institutions by providing correspondent services to nearly 1,400 independent community banks across the country. Bankers' banks help smaller banks compete with larger entities, so a higher percentage of uninsured deposits isn't unusual.

The federal government promised to cover all deposits at Silicon Valley Bank and Signature. Federal law guarantees deposits up to a $250,000 cap. Fees assessed on banks by the government will pay for the deposits. Most bankers say the federal government did the right thing to try and stabilize the financial system. However, some experts see the action as essentially removing the long-standing cap, which raises questions about the role of the federal government in the future if other banks fail.

While the future of deposit insurance caps continues to be debated, banks have rushed to calm investors' fears of a contagion in the broader financial system. Given the lower proportion among the bulk of the largest banks of uninsured deposits, according to Raymond James, the risk of more bank failures looks "relatively limited."

James Herzog, the chief financial officer for Comerica, said the bank's commercially oriented business model inherently leads to a less granular deposit base and a higher percentage of uninsured deposits than a bank that may be more retail-focused.

"However, relative to our peers, we have the highest percentage of non-interest bearing deposits, which can serve as a good proxy for a relative mix of operational deposits," Herzog said. "So while our model may result in more uninsured deposits, it also tends to attract stickier, operational deposits. We have long-standing relationships of mutual support with our customers through cycles, and we feel confident in our business model."

David Brooks, CEO of McKinney-based Independent Bank, said the percentage of uninsured deposits does not reflect deposits that are pledged, so the "true number of unprotected deposits is meaningfully lower than what was noted."

At Texas Security Bank, CEO Craig Scheef said in a statement the bank has seen 37% growth in the number of customers migrating to IntraFi ICS, a program the bank participates in that enables large deposits to become insured. In a letter to customers, Scheef also noted SVB's loans and deposits were concentrated in venture capital, technology and crypto-related startups. "As you know, this is not Texas Security Bank's business model. And it never will be," he wrote.

Robert Hulsey, CEO of American National Bank of Texas, said the bank has deposits from a few public funds that are "technically uninsured" but collateralized with obligations against them. After subtracting municipal accounts, Hulsey said the bank's proportion of uninsured deposits falls closer to 34%.

About 99% of American National's depositors are local and have been with the bank for many years, Hulsey said. He also reiterated the bank has been proactive about reaching out to customers during the past few days and has had several people move "large balances" from other banks over to American National.

"For us, we are watching everything very carefully. We are taking initiative and calling customers," Hulsey said. "I'm not saying we're immune or trying to be arrogant about it, but so far we feel like we're doing alright."

Here are the 10 local banks with the highest concentrations of uninsured deposits:

- **TIB - $1.9 billion, 91.2% of the bank's total deposits**
- **Texas Security Bank - $582.3 million, 69.8% of total deposits**
- **Comerica - $45.5 billion, 59.8% of total deposits**
- **Texas Capital - $13.6 billion, 58.6% of total deposits**
- **Inwood National Bank - $2.1 billion, 57.4% of total deposits**
- **Independent - $8.3 billion, 54.6% of total deposits**
- **Benchmark Bank - $587.9 million, 52.6% of total deposits**
- **The American National Bank of Texas - $2.4 billion, 51.2% of total deposits**
- **United Texas Bank - $394.7 million, 50.2% of total deposits**
- **Veritex Community Bank - $4.5 billion, 48.7% of total deposits**