UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2022

OR

☐ **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: 001-36682

VERITEX HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Texas	**27-0973566**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)

Dallas,	**8214 Westchester Drive, Suite 800** **Texas**	**75225**
	(Address of principal executive offices)	(Zip code)

(972) 349-6200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.01	VBTX	Nasdaq Global Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth 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 ☒

As of May 6, 2022, there were 53,962,875 outstanding shares of the registrant's common stock, par value $0.01 per share.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
as of March 31, 2022 and December 31, 2021
(Dollars in thousands, except par value and share information)

	March 31, 2022	December 31, 2021
	(Unaudited)	
ASSETS		
Cash and due from banks	$ 51,966	$ 44,023
Interest bearing deposits in other banks	499,607	335,761
Total cash and cash equivalents	551,573	379,784
Debt securities available-for-sale (“AFS”), at fair value	1,063,249	993,058
Debt securities held-to-maturity (“HTM”) (fair value of $169,818 and $61,446, at March 31, 2022 and December 31, 2021, respectively)	181,265	59,436
Equity securities	14,880	15,393
Securities purchased under agreements to resell	100,818	102,288
Investment in unconsolidated subsidiaries	1,018	1,018
Federal Home Loan Bank of Dallas (“FHLB”) Stock and Federal Reserve Bank (“FRB”) Stock	71,983	71,892
Total investments	1,433,213	1,243,085
Loans held for sale	18,721	26,007
Loans held for investment (“LHI”), Paycheck Protection Program (“PPP”) loans, carried at fair value	18,512	53,369
LHI, mortgage warehouse (“MW”)	542,877	565,645
LHI, excluding MW and PPP	7,125,429	6,766,009
Less: Allowance for credit losses (“ACL”)	(72,485)	(77,754)
Total LHI, net	7,614,333	7,307,269
Bank-owned life insurance (“BOLI”)	83,641	83,194
Bank premises, furniture and equipment, net	109,138	109,271
Other real estate owned (“OREO”)	1,062	—
Intangible assets, net of accumulated amortization	63,986	66,017
Goodwill	404,452	403,771
Other assets	173,561	138,851
Total assets	$ 10,453,680	$ 9,757,249
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Deposits:		
Noninterest-bearing deposits	$ 2,765,895	$ 2,510,723
Interest-bearing transaction and savings deposits	3,688,292	3,276,312
Certificates and other time deposits	1,435,409	1,576,580
Total deposits	7,889,596	7,363,615
Accounts payable and other liabilities	105,552	69,160
Advances from FHLB	777,522	777,562
Subordinated debentures and subordinated notes	228,018	227,764
Securities sold under agreements to repurchase	4,996	4,069
Total liabilities	9,005,684	8,442,170
Commitments and contingencies (Notes 8 and 11)		
Stockholders’ equity:		
Common stock, $0.01 par value; 75,000,000 shares authorized; 60,547,018 and 56,010,423 shares issued at March 31, 2022 and December 31, 2021, respectively; 53,908,924 and 49,372,329 shares outstanding at March 31, 2022 and December 31, 2021, respectively	605	560
Additional paid-in capital (“APIC”)	1,297,161	1,142,758
Retained earnings	298,830	275,273
Accumulated other comprehensive income (“AOCI”)	18,982	64,070
Treasury stock, 6,638,094 and 6,638,094 shares at cost at March 31, 2022 and December 31, 2021, respectively	(167,582)	(167,582)
Total stockholders’ equity	1,447,996	1,315,079
Total liabilities and stockholders’ equity	$ 10,453,680	$ 9,757,249

See accompanying Notes to Consolidated Financial Statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Income (Unaudited)
For the Three Months Ended March 31, 2022 and 2021
(Dollars in thousands, except per share amounts)

	Three Months Ended March 31,	
	2022	**2021**
Interest and dividend income:		
Loans, including fees	$ 71,443	$ 67,399
Debt securities	7,762	7,437
Deposits in financial institutions and Fed Funds sold	262	127
Equity securities and other investments	910	663
Total interest and dividend income	80,377	75,626
Interest expense:		
Transaction and savings deposits	1,751	1,980
Certificates and other time deposits	1,380	3,061
Advances from FHLB	1,547	1,812
Subordinated debentures and subordinated notes	2,659	3,138
Total interest expense	7,337	9,991
Net interest income	73,040	65,635
Benefit for credit losses	(500)	—
Provision (benefit) for credit losses on unfunded commitments	493	(570)
Net interest income after provision for credit losses	73,047	66,205
Noninterest income:		
Service charges and fees on deposit accounts	4,710	3,629
Loan fees	2,794	1,341
Gain on sale of mortgage loans held for sale	307	507
Government guaranteed loan income, net	4,891	6,548
Equity method investment income	367	—
Other	2,028	2,147
Total noninterest income	15,097	14,172
Noninterest expense:		
Salaries and employee benefits	27,513	22,932
Occupancy and equipment	4,517	4,096
Professional and regulatory fees	3,158	3,441
Data processing and software expense	2,921	2,319
Marketing	1,187	909
Amortization of intangibles	2,495	2,537
Telephone and communications	385	337
Merger and acquisition (“M&A”) expense	700	—
Other	3,696	3,026
Total noninterest expense	46,572	39,597
Income before income tax expense	41,572	40,780
Income tax expense	8,102	8,993
Net income	$ 33,470	$ 31,787
Basic earnings per share	$ 0.66	$ 0.64
Diluted earnings per share	$ 0.65	$ 0.64

See accompanying Notes to Consolidated Financial Statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income (Unaudited)
For the Three Months Ended March 31, 2022 and 2021
(Dollars in thousands)

	Three Months Ended March 31,	
	2022	**2021**
Net income	$ 33,470	$ 31,787
Other comprehensive income:		
Net unrealized (losses) gains on securities AFS:		
Change in net unrealized losses on securities AFS during the period, net	(49,076)	(19,437)
Amortization from transfer of securities from AFS to HTM	4,255	—
Net unrealized losses on securities AFS	(44,821)	(19,437)
Net unrealized (losses) gains on derivative instruments designated as cash flow hedges	(13,381)	27,271
Other comprehensive (losses) income, before tax	(58,202)	7,834
Income tax (benefit) expense	(13,114)	1,646
Other comprehensive (loss) income, net of tax	(45,088)	6,188
Comprehensive (loss) income	$ (11,618)	$ 37,975

See accompanying Notes to Consolidated Financial Statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the Three Months Ended March 31, 2022 and 2021
(In thousands, except for shares)

Three Months Ended March 31, 2022

	Common Stock		Treasury Stock					
	Shares	**Amount**	**Shares**	**Amount**	**APIC**	**Retained Earnings**	**AOCI**	**Total**
Balance at December 31, 2021	49,372,329	$ 560	6,638,094	$ (167,582)	$ 1,142,758	$ 275,273	$ 64,070	$ 1,315,079
Restricted stock units ("RSU") vested, net of 67,965 shares withheld to cover taxes	187,801	2	—	—	(2,839)	—	—	(2,837)
Exercise of employee stock options, net 28,064 and 5,738 shares withheld to cover taxes and exercise, respectively	34,320	—	—	—	98	—	—	98
Stock based compensation	—	—	—	—	3,318	—	—	3,318
Common stock follow on offering	4,314,474	43	—	—	153,826	—	—	153,869
Net income	—	—	—	—	—	33,470	—	33,470
Dividends paid	—	—	—	—	—	(9,913)	—	(9,913)
Other comprehensive loss	—	—	—	—	—	—	(45,088)	(45,088)
Balance at March 31, 2022	53,908,924	$ 605	6,638,094	$ (167,582)	$ 1,297,161	$ 298,830	$ 18,982	$ 1,447,996

Three Months Ended March 31, 2021

	Common Stock		Treasury Stock					
	Shares	**Amount**	**Shares**	**Amount**	**APIC**	**Retained Earnings**	**AOCI**	**Total**
Balance at December 31, 2020	49,337,768	$ 555	6,162,350	$ (152,073)	$ 1,126,437	$ 172,232	$ 56,225	$ 1,203,376
Restricted stock units vested, net of 16,587 shares withheld to cover taxes	58,110	—	—	—	(468)	—	—	(468)
Exercise of employee stock options, net of 18,052 and 3,474 shares withheld to cover taxes and exercise, respectively	184,494	2	—	—	2,877	—	—	2,879
Stock buyback	(147,622)	—	147,622	(4,074)	—	—	—	(4,074)
Stock based compensation	—	—	—	—	2,478	—	—	2,478
Net income	—	—	—	—	—	31,787	—	31,787
Dividends paid	—	—	—	—	—	(8,358)	—	(8,358)
Other comprehensive income	—	—	—	—	—	—	6,188	6,188
Balance at March 31, 2021	49,432,750	$ 557	6,309,972	$ (156,147)	$ 1,131,324	$ 195,661	$ 62,413	$ 1,233,808

See accompanying Notes to Consolidated Financial Statements.

VERITEX HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2022 and 2021
(Dollars in thousands)

	For the Three Months Ended March 31,	
	2022	2021
Cash flows from operating activities:		
Net income	$ 33,470	$ 31,787
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of fixed assets and intangibles	4,378	3,765
Net accretion of time deposit premium, debt discount and debt issuance costs	(16)	(80)
Benefit for credit losses	(7)	(570)
Accretion of loan discount	(1,598)	(1,911)
Stock-based compensation expense	3,318	2,478
Excess tax benefit from stock compensation	(992)	(154)
Net amortization of premiums on debt securities	811	730
Unrealized loss on equity securities recognized in earnings	513	199
Change in cash surrender value and mortality rates of BOLI	(447)	(463)
Change in fair value of government guaranteed loans using fair value option	(379)	(917)
Gain on sales of mortgage loans held for sale	(307)	(507)
Gain on sales of government guaranteed loans	(4,161)	—
Net impairment (recovery) of servicing asset	280	(128)
Originations of loans held for sale	(12,613)	(1,096)
Proceeds from sales of loans held for sale	21,293	4,070
Equity method investment income	(367)	—
Termination of derivatives designated as hedging instruments	—	43,900
(Increase) decrease in other assets	(9,687)	10,554
Increase (decrease) in accounts payable and other liabilities	34,729	(8,437)
Net cash provided by operating activities	**68,218**	**83,220**
Cash flows from investing activities:		
Purchases of AFS debt securities	(266,490)	(79,816)
Proceeds from maturities, calls and pay downs of AFS debt securities	33,880	40,102
Purchases of HTM debt securities	(5,068)	(4,335)
Maturity, calls and paydowns of HTM debt securities	25	1,222
Purchases of other investments	(91)	(233)
Proceeds from sales of equity securities	1,470	—
Net loans originated	(332,290)	(184,586)
Proceeds from sale of government guaranteed loans	4,910	—
Net additions to bank premises, furniture and equipment	(1,130)	(661)
Net cash used in investing activities	**(564,784)**	**(228,307)**
Cash flows from financing activities:		
Net increase in deposits	525,987	391,799
Net increase (decrease) in advances from FHLB	224	(39)
Net change in securities sold under agreement to repurchase	927	552
Net proceeds on sale of common stock in public offering	153,869	—
Payments to tax authorities for stock-based compensation	(2,837)	(468)
Proceeds from exercise of employee stock options	98	2,879
Purchase of treasury stock	—	(4,074)
Dividends paid	(9,913)	(8,358)
Net cash provided by financing activities	**668,355**	**382,291**
Net increase in cash and cash equivalents	171,789	237,204
Cash and cash equivalents at beginning of period	379,784	230,825
Cash and cash equivalents at end of period	$ 551,573	$ 468,029

See accompanying Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Nature of Organization

In this report, the words "Veritex," "the Company," refer to the combined entities of Veritex Holdings, Inc. and its subsidiaries, including Veritex Community Bank. The word "Holdco" refers to Veritex Holdings, Inc. The word "the Bank" refers to Veritex Community Bank.

Veritex is a Texas state banking organization, with corporate offices in Dallas, Texas, and currently operates 18 branches located in the Dallas-Fort Worth metroplex and 10 branches in the Houston metropolitan area. The Bank provides a full range of banking services, including commercial and retail lending and the acceptance of checking and savings deposits, to individual and corporate customers. The Texas Department of Banking and the Board of Governors of the Federal Reserve System (the "Federal Reserve") are the primary regulators of the Company and the Bank, and both regulatory agencies perform periodic examinations to ensure regulatory compliance.

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Veritex Holdings, Inc. and its subsidiaries, including Veritex Community Bank.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), but do not include all of the information and footnotes required for complete financial statements. Intercompany transactions and balances are eliminated in consolidation. In management's opinion, these unaudited consolidated financial statements include all adjustments of a normal recurring nature necessary for a fair statement of the Company's consolidated balance sheets at March 31, 2022 and December 31, 2021, consolidated statements of income and comprehensive income for the three months ended March 31, 2022 and 2021, consolidated statements of changes in stockholders' equity for the three months ended March 31, 2022 and 2021 and consolidated statements of cash flows for the three months ended March 31, 2022 and 2021.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end and the results for the interim periods shown herein are not necessarily indicative of results to be expected for the full year due in part to global economic and financial market conditions, interest rates, access to sources of liquidity, market competition and interruptions of business processes. These unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial information and the instructions to Quarterly Reports on Form 10-Q adopted by the Securities and Exchange Commission ("SEC"). These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2021 included in the Company's Annual Report on Form 10-K, as filed with the SEC on March 1, 2022.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Segment Reporting

The Company has one reportable segment. All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each activity of the Company supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and borrowings while managing interest rate and credit risk. Accordingly, all significant operating decisions are based upon an analysis of the Bank as one segment or unit. The Company's chief operating decision-maker, the Chief Executive Officer, uses the consolidated results to make operating and strategic decisions.

Reclassifications

Certain items in the Company's prior year financial statements were reclassified to conform to the current presentation.

Earnings Per Share ("EPS")

EPS is based upon the weighted average shares outstanding. The table below sets forth the reconciliation between weighted average shares used for calculating basic and diluted EPS for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
	2022	2021
Earnings (numerator)		
Net income	$ 33,470	$ 31,787
Shares (denominator)		
Weighted average shares outstanding for basic EPS	50,695	49,394
Dilutive effect of employee stock-based awards	876	604
Adjusted weighted average shares outstanding	51,571	49,998
EPS:		
Basic	$ 0.66	$ 0.64
Diluted	$ 0.65	$ 0.64

For the three months ended March 31, 2022, there were 80 antidilutive shares excluded from the diluted EPS weighted average shares outstanding relating to restricted stock units ("RSUs") and none relating to stock options. For the three months ended March 31, 2021, there were 75 antidilutive shares excluded from the diluted EPS weighted average shares outstanding, 23 relating to RSUs and 52 relating to stock options.

Transfers of debt securities from AFS to HTM

Transfers of debt securities into the HTM category from the AFS category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer is retained in other comprehensive income and in the carrying value of the HTM securities. Such amounts are amortized over the remaining life of the security.

Recent Accounting Pronouncements

Accounting Standard Update ("ASU") ASU 2022-01, "*Derivatives and Hedging (Topic 815)*" ("ASU 2022-01") clarifies the guidance in ASC 815 on fair value hedge accounting of interest rate risk for portfolios and financial assets. Among other things, the amended guidance established the "last-of-layer" method for making the fair value hedge accounting for these portfolios more accessible and renamed that method the "portfolio layer" method. ASU 2022-01 is effective January 1, 2023 and is not expected to have a significant impact on our consolidated financial statements.

ASU 2022-02, "*Financial Instruments - Credit Losses (Topic 326)*" ("ASU 2022-02") eliminates the guidance on troubled debt restructurings and requires entities to evaluate all loan modifications to determine if they result in a new loan or a continuation of the existing loan. ASU 2022-02 also requires that entities disclose current-period gross charge-offs by year of origination for loans and leases. ASU 2022-02 is effective January 1, 2023 and will have an impact on our financial statement disclosures.

2. Supplemental Statement of Cash Flows

Other supplemental cash flow information is presented below:

	Three Months Ended March 31,	
	2022	2021
	(in thousands)	
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	$ 5,368	$ 7,602
Cash paid for income taxes	—	15
Supplemental Disclosures of Non-Cash Flow Information:		
Transfer of AFS debt securities to HTM debt securities	117,001	—
Net foreclosure of OREO and repossessed assets	1,062	—
Noncash assets acquired in business combination[1]		
LHI	(681)	—
Goodwill	681	—

[1] Represents adjustments to provisional estimates recorded during the three months ended March 31, 2022 for the acquisition of North Avenue Capital, LLC (“NAC”). Refer to Note 13. Business Combinations for further discussion.

3. Share Transactions

The Company's Board of Directors (the “Board”) has authorized the purchase of up to $250,000 of the Company's outstanding common stock under a stock buyback program (the "Stock Buyback Program") with an expiration date of December 31, 2022. The shares may be repurchased in the open market or in privately negotiated transactions from time to time, depending upon market conditions and other factors, and in accordance with applicable regulations of the SEC. The Stock Buyback Program does not obligate the Company to purchase any shares. The Stock Buyback Program may be terminated or amended by the Board at any time prior to its expiration.

Shares repurchased through the periods indicated are as follows:

	Three Months Ended March 31,	
	2022	2021
Numbers of shares repurchased	—	147,622
Weighted average price per share	—	$ 26.83

On March 8, 2022, the Company completed an underwritten public offering of 3,947,369 shares of its common stock at $38.00 per share. On March 10, 2022, the representatives of the underwriters delivered to the Company a written notice of exercise by the underwriters of the underwriters' option to purchase an additional 367,105 shares of the Company's common stock at $38.00 per share, which subsequently closed on March 14, 2022. Net proceeds, after deducting underwriting discounts and offering expenses, of such offering were approximately $153,826. The Company intends to use the net proceeds from the Offering for general corporate purposes and to support its continued growth, including investments in the Bank and future strategic acquisitions.

4. Securities

Equity Securities With a Readily Determinable Fair Value

The Company held equity securities with a fair value of $10,525 and $11,038 at March 31, 2022 and December 31, 2021, respectively. The Company did not realize a loss on equity securities with a readily determinable fair value during the three months ended March 31, 2022 or 2021. The gross unrealized loss recognized on equity securities with readily determinable fair values recorded in other noninterest income in the Company's consolidated statements of income were as follows:

	Three Months Ended March 31,	
	2022	2021
Unrealized loss recognized on equity securities with a readily determinable fair value	$ 513	$ 199

Equity Securities Without a Readily Determinable Fair Value

The Company held equity securities without a readily determinable fair values and measured at cost of $4,355 as of March 31, 2022 and December 31, 2021.

Debt Securities

Debt securities have been classified in the consolidated balance sheets according to management's intent. The amortized cost, related gross unrealized gains and losses, ACL and the fair value of AFS and HTM debt securities are as follows:

	March 31, 2022				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
AFS					
Corporate bonds	$ 262,839	$ 5,975	$ 1,593	$ —	$ 267,221
Municipal securities	50,335	993	1,006	—	50,322
Mortgage-backed securities	153,215	593	5,838	—	147,970
Collateralized mortgage obligations	493,702	613	16,192	—	478,123
Asset-backed securities	50,452	721	1,233	—	49,940
Collateralized loan obligations	70,179	—	506	—	69,673
	$ 1,080,722	$ 8,895	$ 26,368	$ —	$ 1,063,249
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
HTM					
Mortgage-backed securities	$ 39,072	$ —	$ 3,340	$ —	$ 35,732
Collateralized mortgage obligations	37,618	203	2,339	—	35,482
Municipal securities	104,575	603	6,574	—	98,604
	$ 181,265	$ 806	$ 12,253	$ —	$ 169,818

The Company elected to transfer 25 AFS debt securities with an aggregate fair value of $117,001 to a classification of HTM debt securities on January 1, 2022. In accordance with FASB ASC 320-10-35-10, the transfer from AFS to HTM must be recorded at the fair value of the AFS debt securities at the time of transfer. The net unrealized holding gain of $4,387, net of tax, at the date of transfer was retained in accumulated other comprehensive income (loss), with the associated pre-tax amount retained in the carrying value of the HTM debt securities. Such amounts will be amortized to comprehensive income over the remaining life of the securities.

	December 31, 2021				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
AFS					
Corporate bonds	$ 198,396	$ 10,294	$ 178	$ —	$ 208,512
Municipal securities	116,100	8,261	431	—	123,930
Mortgage-backed securities	124,230	4,326	1,489	—	127,067
Collateralized mortgage obligations	424,174	12,240	2,350	—	434,064
Asset-backed securities	53,466	1,616	519	—	54,563
Collateralized loan obligations	45,089	—	167	—	44,922
	$ 961,455	$ 36,737	$ 5,134	$ —	$ 993,058

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	ACL	Fair Value
HTM					
Mortgage-backed securities	$ 25,767	$ 45	$ 508	$ —	$ 25,304
Collateralized mortgage obligations	5,490	560	—	—	6,050
Municipal securities	28,179	2,015	102	—	30,092
	$ 59,436	$ 2,620	$ 610	$ —	$ 61,446

The following tables disclose the Company's AFS debt securities in an unrealized loss position for which an ACL has not been recorded, aggregated by investment category and length of time that individual debt securities have been in a continuous loss position:

	March 31, 2022					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
AFS						
Corporate bonds	$ 72,219	$ 1,593	$ —	$ —	$ 72,219	$ 1,593
Municipal securities	11,731	902	1,889	104	13,620	1,006
Mortgage-backed securities	57,918	2,515	27,791	3,323	85,709	5,838
Collateralized mortgage obligations	338,386	13,597	23,610	2,595	361,996	16,192
Asset-backed securities	24,209	464	10,918	769	35,127	1,233
Collateralized loan obligations	69,673	506	—	—	69,673	506
	$ 574,136	$ 19,577	$ 64,208	$ 6,791	$ 638,344	$ 26,368
HTM						
Mortgage-backed securities	$ 19,592	$ 1,784	$ 16,141	$ 1,556	$ 35,733	$ 3,340
Municipal securities	75,221	6,281	2,005	293	77,226	6,574
Collateralized mortgage obligations	31,162	2,339	—	—	31,162	2,339
	$ 125,975	$ 10,404	$ 18,146	$ 1,849	$ 144,121	$ 12,253

	December 31, 2021					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
AFS						
Corporate bonds	$ 7,072	$ 178	$ —	$ —	$ 7,072	$ 178
Municipal securities	12,704	194	4,350	237	17,054	431
Mortgage-backed securities	40,276	1,283	4,677	206	44,953	1,489
Collateralized mortgage obligations	106,063	2,350	—	—	106,063	2,350
Asset-backed securities	11,265	519	—	—	11,265	519
Collateralized loan obligations	44,922	167	—	—	44,922	167
	$ 222,302	$ 4,691	$ 9,027	$ 443	$ 231,329	$ 5,134
HTM						
Mortgage-backed securities	$ 24,214	$ 508	$ —	$ —	$ 24,214	$ 508
Municipal securities	4,583	102	—	—	4,583	102
	$ 28,797	$ 610	$ —	$ —	$ 28,797	$ 610

Management evaluates AFS debt securities in unrealized loss positions to determine whether the impairment is due to credit-related factors or noncredit-related factors. Consideration is given to (1) the extent to which the fair value is less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

The number of AFS debt securities in an unrealized loss position totaled 93 and 34 at March 31, 2022 and December 31, 2021, respectively. Management does not have the intent to sell any of these debt securities and believes that it is more

likely than not that the Company will not have to sell any such debt securities before a recovery of cost. The fair value is expected to recover as the debt securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, as of March 31, 2022, management believes that the unrealized losses detailed in the previous table are due to noncredit-related factors, including changes in interest rates and other market conditions, and therefore no losses have been recognized in the Company's consolidated statements of income.

The amortized costs and estimated fair values of AFS debt securities, by contractual maturity, as of the dates indicated, are shown in the table below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities, collateralized mortgage obligations, asset-backed securities, and collateralized loan obligations typically are issued with stated principal amounts, and the securities are backed by pools of mortgage loans and other loans that have varying maturities. The terms of mortgage-backed securities, collateralized mortgage obligations, asset-backed securities, and collateralized loan obligations thus approximates the terms of the underlying mortgages and loans and can vary significantly due to prepayments. Therefore, these securities are not included in the maturity categories below.

	March 31, 2022			
	AFS		HTM	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due from one year to five years	$ 39,412	$ 41,647	$ —	$ —
Due from five years to ten years	204,782	206,454	4,304	4,330
Due after ten years	68,980	69,442	100,271	94,274
	313,174	317,543	104,575	98,604
Mortgage-backed securities and collateralized mortgage obligations	646,917	626,093	76,690	71,214
Asset-backed securities	50,452	49,940	—	—
Collateralized loan obligations	70,179	69,673	—	—
	$ 1,080,722	$ 1,063,249	$ 181,265	$ 169,818

	December 31, 2021			
	AFS		HTM	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due from one year to five years	$ 5,201	$ 5,241	$ —	$ —
Due from five years to ten years	178,203	186,972	3,849	4,115
Due after ten years	131,092	140,229	24,330	25,977
	314,496	332,442	28,179	30,092
Mortgage-backed securities and collateralized mortgage obligations	548,404	561,131	31,257	31,354
Asset-backed securities	53,466	54,563	—	—
Collateralized loan obligations	45,089	44,922	—	—
	$ 961,455	$ 993,058	$ 59,436	$ 61,446

No sales of AFS debt securities occurred during the three months ended March 31, 2022 and 2021.

As of March 31, 2022 and December 31, 2021, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of shareholders' equity. There was a blanket floating lien on all debt securities held by the Company to secure FHLB advances as of March 31, 2022 and December 31, 2021.

5. LHI and ACL

LHI in the accompanying consolidated balance sheets are summarized as follows:

	March 31, 2022	December 31, 2021
LHI, carried at amortized cost:		
Real estate:		
Construction and land	$ 1,297,338	$ 1,062,144
Farmland	48,095	55,827
1 - 4 family residential	604,408	542,566
Multi-family residential	272,250	310,241
OOCRE	633,615	665,537
NOOCRE	2,145,826	2,120,309
Commercial	2,125,900	2,006,876
MW	542,877	565,645
Consumer	9,533	11,998
	7,679,842	7,341,143
Deferred loan fees, net	(11,536)	(9,489)
ACL	(72,485)	(77,754)
LHI carried at amortized cost, net	7,595,821	7,253,900
LHI, carried at fair value:		
PPP loans	18,512	53,369
Total LHI, net	$ 7,614,333	$ 7,307,269

Included in the total LHI, net, as of March 31, 2022 and December 31, 2021 was an accretable discount related to purchased performing and purchased credit deteriorated ("PCD") loans acquired within a business combination in the approximate amounts of $7,628 and $8,657, respectively. The discount is being accreted into income on a level-yield basis over the life of the loans. In addition, included in the net loan portfolio as of March 31, 2022 and December 31, 2021 is a discount on retained loans from sale of originated U.S. Small Business Administration ("SBA") loans of $3,429 and $3,430, respectively.

LHI, PPP loans, carried at fair value

Included in total LHI, net, as of March 31, 2022 and December 31, 2021 was $18,512 and $53,369, respectively, of PPP loans, which are carried at fair value. The following table summarizes the PPP fee income and net gain (loss) due to the change in the fair value of PPP loans, both of which are included in government guaranteed loan income, net, on the Company's consolidated statements of income and in change in fair value of government guaranteed loans using fair value option on the Company's consolidated statements of cash flows:

	March 31, 2022	March 31, 2021
PPP fee income	$ —	$ 6,624
Net gain (loss) due to the change in fair value	175	(287)

These PPP loans were originated through an application to the SBA under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and are 100% forgivable if certain criteria are met by the borrowers. As of March 31, 2022, we believe a majority of the Company's PPP loans will meet such criteria.

ACL

The Company’s estimate of the ACL reflects losses expected over the remaining contractual life of the assets. The contractual term does not consider extensions, renewals or modifications unless the Company has identified an expected troubled debt restructuring (TDR). The activity in the ACL related to LHI is as follows:

	Three Months Ended March 31, 2022								
	Construction and Land	Farmland	Residential	Multifamily	OOCRE	NOOCRE	Commercial	Consumer	Total
Balance at beginning of year	$ 7,293	$ 187	$ 5,982	$ 2,664	$ 9,215	$ 30,548	$ 21,632	$ 233	$ 77,754
Credit loss (benefit) expense non-PCD loans	1,595	(29)	224	(537)	813	(4,114)	4,044	622	2,618
Credit loss (benefit) expense PCD loans	(5)	—	(72)	—	(1,264)	673	(2,442)	(8)	(3,118)
Charge-offs	—	—	—	—	(1,341)	(553)	(3,294)	(134)	(5,322)
Recoveries	—	—	—	—	—	400	144	9	553
Ending Balance	$ 8,883	$ 158	$ 6,134	$ 2,127	$ 7,423	$ 26,954	$ 20,084	$ 722	$ 72,485

	Three Months Ended March 31, 2021								
	Construction and Land	Farmland	Residential	Multifamily	OOCRE	NOOCRE	Commercial	Consumer	Total
Balance at beginning of year	$ 7,768	$ 56	$ 8,148	$ 6,231	$ 9,719	$ 35,237	$ 37,554	$ 371	$ 105,084
Credit (benefit) loss expense non-PCD loans	(949)	(9)	(1,144)	(1,417)	(1,615)	4,074	(1,103)	(54)	(2,217)
Credit (benefit) loss expense PCD loans	(14)	—	(24)	—	1,018	192	1,050	(5)	2,217
Charge-offs	—	—	(15)	—	—	—	(346)	(18)	(379)
Recoveries	—	—	3	—	—	—	226	2	231
Ending Balance	$ 6,805	$ 47	$ 6,968	$ 4,814	$ 9,122	$ 39,503	$ 37,381	$ 296	$ 104,936

The majority of the Company's loan portfolio consists of loans to businesses and individuals in the Dallas-Fort Worth metroplex and the Houston metropolitan area. This geographic concentration subjects the loan portfolio to the general economic conditions within these areas. The risks created by this concentration have been considered by management in the determination of the adequacy of the ACL. Management believes the ACL was adequate to cover estimated losses on loans as of March 31, 2022 and 2021.

A loan is considered collateral-dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The following table presents the amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans:

	March 31, 2022		December 31, 2021	
	Real Property[1]	ACL Allocation	Real Property[1]	ACL Allocation
NOOCRE	$ 17,551	$ 4,572	$ 17,908	$ 7,808
Commercial	1,085	84	1,702	—
Consumer	1,063	538	1,063	—
Total	$ 19,699	$ 5,194	$ 20,673	$ 7,808

[1] Loans reported exclude PCD loans that transitioned upon adoption of ASC 326 and accounted for on a pooled basis.

Nonaccrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due in accordance with the terms of the loan agreement. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Nonaccrual loans aggregated by class of loans, as of March 31, 2022 and December 31, 2021, were as follows:

	March 31, 2022		December 31, 2021	
	Nonaccrual	Nonaccrual With No ACL	Nonaccrual	Nonaccrual With No ACL
Real estate:				
1 - 4 family residential	$ 1,005	$ 1,005	$ 990	$ 990
OOCRE	13,446	13,446	14,236	13,824
NOOCRE	17,739	189	17,978	191
Commercial	13,259	1,317	15,267	4,207
Consumer	1,231	168	1,216	1,216
Total	$ 46,680	$ 16,125	$ 49,687	$ 20,428

There were $10,678 and $11,056 of PCD loans that are not accounted for on a pooled basis included in nonaccrual loans at March 31, 2022 and December 31, 2021, respectively.

During the three months ended March 31, 2022 and 2021, interest income not recognized on nonaccrual loans was $889 and $1,120, respectively.

An age analysis of past due loans, aggregated by class of loans and including past due nonaccrual loans, as of March 31, 2022 and December 31, 2021, is as follows:

	March 31, 2022							
	30 to 59 Days	60 to 89 Days	90 Days or Greater	Total Past Due	Total Current	PCD	Total Loans	Total 90 Days Past Due and Still Accruing[1]
Real estate:								
Construction and land	$ 1,400	$ —	$ —	$ 1,400	$ 1,294,062	$ 1,876	$ 1,297,338	$ —
Farmland	—	—	—	—	48,095	—	48,095	—
1 - 4 family residential	2,429	—	926	3,355	599,891	1,162	604,408	—
Multi-family residential	—	—	—	—	272,250	—	272,250	—
OOCRE	3,114	509	13,446	17,069	593,946	22,600	633,615	—
NOOCRE	—	—	17,739	17,739	2,112,843	15,244	2,145,826	—
Commercial	4,026	6,280	3,881	14,187	2,104,273	7,440	2,125,900	264
MW	430	—	—	430	542,447	—	542,877	—
Consumer	68	35	1,161	1,264	8,099	170	9,533	—
Total	$ 11,467	$ 6,824	$ 37,153	$ 55,444	$ 7,575,906	$ 48,492	$ 7,679,842	$ 264

[1] Loans 90 days past due and still accruing excludes $5,511 of PCD loans and $203 of PPP loans as of March 31, 2022.

	December 31, 2021							
	30 to 59 Days	60 to 89 Days	90 Days or Greater	Total Past Due	Total Current	PCD	Total Loans	Total 90 Days Past Due and Still Accruing[1]
Real estate:								
Construction and land	$ —	$ —	$ —	$ —	$ 1,059,796	$ 2,348	$ 1,062,144	$ —
Farmland	—	—	—	—	55,827	—	55,827	—
1 - 4 family residential	2,073	—	1,008	3,081	538,307	1,178	542,566	24
Multi-family residential	—	—	—	—	310,241	—	310,241	—
OOCRE	4,538	965	11,622	17,125	620,848	27,564	665,537	—
NOOCRE	936	—	192	1,128	2,100,981	18,200	2,120,309	—
Commercial	1,525	4,395	3,708	9,628	1,988,622	8,626	2,006,876	191
MW	—	—	—	—	565,645	—	565,645	—
Consumer	135	105	1,082	1,322	10,499	177	11,998	20
Total	$ 9,207	$ 5,465	$ 17,612	$ 32,284	$ 7,250,766	$ 58,093	$ 7,341,143	$ 235

[1] Loans 90 days past due and still accruing excludes $9,345 of PCD loans and $206 of PPP loans as of December 31, 2021.

Loans past due 90 days and still accruing were $264 and $235 as of March 31, 2022 and December 31, 2021, respectively. These loans are also considered well-secured, and are in the process of collection with plans in place for the borrowers to bring the notes fully current or to subsequently be renewed. The Company believes that it will collect all principal and interest due on each of the loans past due 90 days and still accruing.

Troubled Debt Restructuring

Modifications of terms for the Company's loans and their inclusion as TDRs are based on individual facts and circumstances. Loan modifications that are included as TDRs may involve a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk, or deferral of principal payments, regardless of the period of the modification. The recorded investment in TDRs was $23,273 and $25,518 as of March 31, 2022 and December 31, 2021, respectively.

There were no new TDRs during the three months ended March 31, 2022. The following tables presents the pre- and post-modification amortized cost of loans modified as TDRs during the three months ended March 31, 2021.

	During the Three Months Ended March 31, 2021			
	Adjusted Payment Structure	Payment Deferrals	Total Modifications	Number of Loans
Commercial real estate	$ 240	$ —	$ 240	1
Total	$ 240	$ —	$ 240	1

There were no loans modified as TDR loans within the previous 12 months and for which there was a payment default during the three months ended March 31, 2022 and 2021. A default for purposes of this disclosure is a TDR loan in which the borrower is 90 days past due or results in the foreclosure and repossession of the applicable collateral.

During the three months ended March 31, 2022 and 2021, interest income that would have been recorded on TDR loans had the terms of the loans not been modified was $92 and $122, respectively.

The Company has not committed to lend additional amounts to customers with outstanding loans classified as TDRs as of March 31, 2022 or December 31, 2021.

Credit Quality Indicators

From a credit risk standpoint, the Company classifies its loans in one of the following categories: (i) pass, (ii) special mention, (iii) substandard or (iv) doubtful. Loans classified as loss are charged-off. Loans not rated special mention, substandard, doubtful or loss are classified as pass loans.

The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. The Company reviews the ratings on criticized credits monthly. Ratings are adjusted to reflect the degree of risk and loss that is felt to be inherent in each credit as of each monthly reporting period. All classified credits are evaluated for impairment. If impairment is determined to exist, a specific reserve is established. The Company's methodology is structured so that specific reserves are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss).

Credits rated special mention show clear signs of financial weaknesses or deterioration in credit worthiness, however, such concerns are generally not so pronounced that the Company expects to experience significant loss within the short-term. Such credits typically maintain the ability to perform within standard credit terms and credit exposure is not as prominent as credits with a lower rating.

Credits rated substandard are those in which the normal repayment of principal and interest may be, or has been, jeopardized by reason of adverse trends or developments of a financial, managerial, economic or political nature, or important weaknesses which exist in collateral. A protracted workout on these credits is a distinct possibility. Prompt corrective action is therefore required to strengthen the Company's position, and/or to reduce exposure and to assure that adequate remedial measures are taken by the borrower. Credit exposure becomes more likely in such credits and a serious evaluation of the secondary support to the credit is performed.

Credits rated doubtful are those in which full collection of principal appears highly questionable, and in which some degree of loss is anticipated, even though the ultimate amount of loss may not yet be certain and/or other factors exist which could affect collection of debt. Based upon available information, positive action by the Company is required to avert or minimize loss. Credits rated doubtful are generally also placed on non-accrual.

Credits classified as PCD are those that, at acquisition date, have experienced a more-than-insignificant deterioration in credit quality since origination. All loans considered to be purchased-credit impaired loans prior to January 1, 2020 were converted to PCD loans upon adoption of ASC 326. The Company elected to maintain pools of loans that were previously accounted for under ASC 310-30 and will continue to account for these pools as a unit of account. Loans are only removed from the existing pools if they are foreclosed, written off, paid off, or sold.

The Company considers the guidance in ASC 310-20 when determining whether a modification, extension or renewal of a loan constitutes a current period origination. Generally, current period renewals of credit are re-underwritten at the point of renewal and considered current period originations for purposes of the table below. Based on the most recent analysis performed, the risk category of loans by class of loans based on year or origination is as follows:

	Term Loans Amortized Cost Basis by Origination Year[1]							
	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term
As of March 31, 2022								
Construction and land:								
Pass	$ 42,398	$ 530,492	$ 518,181	$ 113,127	$ 54,941	$ 27,712	$ 6,160	$ 838
Special mention	—	—	1,613	—	—	—	—	—
PCD	—	—	—	—	—	1,876	—	—
Total construction and land	$ 42,398	$ 530,492	$ 519,794	$ 113,127	$ 54,941	$ 29,588	$ 6,160	$ 838
Farmland:								
Pass	$ 2,278	$ 16,697	$ 18,914	$ 25	$ 3,367	$ 5,533	$ 1,281	$ —
Total farmland	$ 2,278	$ 16,697	$ 18,914	$ 25	$ 3,367	$ 5,533	$ 1,281	$ —

1 - 4 family residential:							
Pass	$ 26,827	$ 251,200	$ 102,312	$ 48,789	$ 52,176	$ 108,126	$ 11,245
Special mention	—	—	—	—	—	344	—
Substandard	—	—	—	—	—	980	567
PCD	—	—	—	—	—	1,162	—
Total 1 - 4 family residential	$ 26,827	$ 251,200	$ 102,312	$ 48,789	$ 52,176	$ 110,612	$ 11,812
Multi-family residential:							
Pass	$ 28,596	$ 66,418	$ 59,149	$ 33,489	$ 51,868	$ 11,020	$ 46
Special mention	—	—	—	—	21,664	—	—
Total multi-family residential	$ 28,596	$ 66,418	$ 59,149	$ 33,489	$ 73,532	$ 11,020	$ 46
OOCRE:							
Pass	$ 12,150	$ 111,119	$ 101,059	$ 56,202	$ 60,078	$ 209,795	$ 2,566
Special mention	—	2,397	889	1,037	—	5,713	—
Substandard	—	—	—	—	23,628	10,708	—
PCD	—	—	—	—	—	22,600	—
Total OOCRE	$ 12,150	$ 113,516	$ 101,948	$ 57,239	$ 83,706	$ 248,816	$ 2,566
NOOCRE:							
Pass	$ 150,063	$ 628,084	$ 271,385	$ 200,553	$ 285,499	$ 413,590	$ 7,237
Special mention	—	—	741	2,170	44,414	72,686	—
Substandard	—	—	—	1,770	9,889	40,934	—
PCD	—	—	—	—	13,785	1,459	—
Total NOOCRE	$ 150,063	$ 628,084	$ 272,126	$ 204,493	$ 353,587	$ 528,669	$ 7,237
Commercial:							
Pass	$ 92,216	$ 445,732	$ 170,620	$ 130,796	$ 58,092	$ 75,602	$ 1,048,204
Special mention	—	17,848	2,421	131	10,101	6,394	5,737
Substandard	—	4,744	4,918	6,137	13,579	6,463	18,550
PCD	—	—	—	—	309	7,131	—
Total commercial	$ 92,216	$ 468,324	$ 177,959	$ 137,064	$ 82,081	$ 95,590	$ 1,072,491
MW:							
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 542,447
Substandard	—	—	—	—	—	—	430
Total MW	$ —	$ —	$ —	$ —	$ —	$ —	$ 542,877
Consumer:							
Pass	$ 685	$ 899	$ 1,411	$ 437	$ 310	$ 3,341	$ 968
Special mention	—	—	—	—	—	76	—
Substandard	—	—	—	2	—	170	1,064
PCD	—	—	—	—	—	170	—
Total consumer	$ 685	$ 899	$ 1,411	$ 439	$ 310	$ 3,757	$ 2,032
Total Pass	$ 355,213	$ 2,050,641	$ 1,243,031	$ 583,418	$ 566,331	$ 854,719	$ 1,620,154

Total Special Mention	—	20,245	5,664	3,338	76,179	85,213	5,737	
Total Substandard	—	4,744	4,918	7,909	47,096	59,255	20,611	
Total PCD	—	—	—	—	14,094	34,398	—	
Total	$ 355,213	$ 2,075,630	$ 1,253,613	$ 594,665	$ 703,700	$ 1,033,585	$ 1,646,502	$

[1] Term loans amortized cost basis by origination year excludes $11,536 of deferred loan fees, net.

	Term Loans Amortized Cost Basis by Origination Year[1]								
As of December 31, 2021	**2021**	**2020**	**2019**	**2018**	**2017**	**Prior**	**Revolving Loans Amortized Cost Basis**	**Revolving Loans Converted to Term**	**Total**
Construction and land:									
Pass	$ 389,420	$ 453,262	$ 116,855	$ 57,637	$ 5,741	$ 29,182	$ 4,631	$ 1,163	$ 1,057,891
Special mention	—	1,593	—	312	—	—	—	—	1,905
PCD	—	—	—	—	—	2,348	—	—	2,348
Total construction and land	$ 389,420	$ 454,855	$ 116,855	$ 57,949	$ 5,741	$ 31,530	$ 4,631	$ 1,163	$ 1,062,144
Farmland:									
Pass	$ 16,849	$ 28,655	$ 27	$ 3,367	$ 2,957	$ 2,643	$ 1,329	$ —	$ 55,827
Total farmland	$ 16,849	$ 28,655	$ 27	$ 3,367	$ 2,957	$ 2,643	$ 1,329	$ —	$ 55,827
1 - 4 family residential:									
Pass	$ 191,333	$ 101,377	$ 54,826	$ 59,861	$ 27,743	$ 85,661	$ 12,659	$ 6,025	$ 539,485
Special mention	—	—	—	—	—	352	—	—	352
Substandard	—	—	—	—	81	903	567	—	1,551
PCD	—	—	—	—	—	1,178	—	—	1,178
Total 1 - 4 family residential	$ 191,333	$ 101,377	$ 54,826	$ 59,861	$ 27,824	$ 88,094	$ 13,226	$ 6,025	$ 542,566
Multi-family residential:									
Pass	$ 67,979	$ 59,239	$ 54,321	$ 68,531	$ 11,815	$ 27,020	$ 49	$ —	$ 288,954
Special mention	—	—	—	21,287	—	—	—	—	21,287
Total multi-family residential	$ 67,979	$ 59,239	$ 54,321	$ 89,818	$ 11,815	$ 27,020	$ 49	$ —	$ 310,241
OOCRE:									
Pass	$ 114,413	$ 111,516	$ 56,964	$ 73,112	$ 54,921	$ 174,500	$ 2,986	$ 2,965	$ 591,377
Special mention	2,420	—	1,052	—	—	6,232	—	—	9,704
Substandard	—	412	—	25,440	781	10,259	—	—	36,892
PCD	—	1,377	—	—	6,567	19,620	—	—	27,564
Total OOCRE	$ 116,833	$ 113,305	$ 58,016	$ 98,552	$ 62,269	$ 210,611	$ 2,986	$ 2,965	$ 665,537
NOOCRE:									
Pass	$ 628,140	$ 298,091	$ 254,566	$ 319,359	$ 56,710	$ 336,713	$ 5,861	$ 23,015	$ 1,922,455
Special mention	—	613	1,685	29,469	16,354	48,952	—	489	97,562
Substandard	—	48	1,775	26,209	1,581	52,479	—	—	82,092
PCD	—	—	—	13,620	—	4,580	—	—	18,200
Total NOOCRE	$ 628,140	$ 298,752	$ 258,026	$ 388,657	$ 74,645	$ 442,724	$ 5,861	$ 23,504	$ 2,120,309
Commercial:									
Pass	$ 430,213	$ 187,370	$ 124,798	$ 65,186	$ 40,254	$ 52,491	$ 968,229	$ 19,130	$ 1,887,671
Special mention	7,958	2,341	149	15,136	1,069	3,368	3,482	2,589	36,092
Substandard	15,662	5,843	6,286	14,908	4,167	2,779	20,500	4,342	74,487

PCD	—	—	—	315	1,785	6,526	—	—	8,626
Total commercial	$ 453,833	$ 195,554	$ 131,233	$ 95,545	$ 47,275	$ 65,164	$ 992,211	$ 26,061	$ 2,006,876
MW:									
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 564,850	$ 250	$ 565,100
Substandard	—	—	—	—	—	—	545	—	545
Total MW	$ —	$ —	$ —	$ —	$ —	$ —	$ 565,395	$ 250	$ 565,645
Consumer:									
Pass	$ 3,362	$ 1,566	$ 512	$ 408	$ 2,777	$ 784	$ 1,006	$ 25	$ 10,440
Special mention	—	—	—	—	65	14	—	—	79
Substandard	—	—	22	—	177	39	1,064	—	1,302
PCD	—	—	—	—	24	153	—	—	177
Total consumer	$ 3,362	$ 1,566	$ 534	$ 408	$ 3,043	$ 990	$ 2,070	$ 25	$ 11,998
Total Pass	$ 1,841,709	$ 1,241,076	$ 662,869	$ 647,461	$ 202,918	$ 708,994	$ 1,561,600	$ 52,573	$ 6,919,200
Total Special Mention	10,378	4,547	2,886	66,204	17,488	58,918	3,482	3,078	166,981
Total Substandard	15,662	6,303	8,083	66,557	6,787	66,459	22,676	4,342	196,869
Total PCD	—	1,377	—	13,935	8,376	34,405	—	—	58,093
Total	$ 1,867,749	$ 1,253,303	$ 673,838	$ 794,157	$ 235,569	$ 868,776	$ 1,587,758	$ 59,993	$ 7,341,143

[1] Term loans amortized cost basis by origination year excludes $9,489 of deferred loan fees, net.

Servicing Assets

The Company was servicing loans of approximately $518,612 and $261,885 as of March 31, 2022 and 2021, respectively. A summary of the changes in the related servicing assets are as follows:

	Three Months Ended March 31,	
	2022	2021
Balance at beginning of period	$ 17,705	$ 3,363
Increase from loan sales	1,491	—
Servicing asset impairment, net of recoveries	(280)	128
Amortization charged as a reduction to income	(748)	(89)
Balance at end of period	$ 18,168	$ 3,402

Fair value of servicing assets is estimated by discounting estimated future cash flows from the servicing assets using discount rates that approximate current market rates over the expected lives of the loans being serviced. A valuation allowance is recorded when the fair value is below the carrying amount of the asset. As of March 31, 2022 and 2021 there was a valuation allowance of $908 and $428, respectively.

The Company may also receive a portion of subsequent interest collections on loans sold that exceed the contractual servicing fees. In that case, the Company records an interest-only strip based on its relative fair market value and the other components of the loans. There was no interest-only strip receivable recorded at March 31, 2022 and December 31, 2021.

During the three months ended March 31, 2022, the Bank sold $4,376 in SBA LHI and $20,000 in United States Department of Agriculture (“USDA”) LHI resulting in a gain of $533 and $3,628, respectively. During the three months ended March 31, 2021, the Bank sold no SBA or USDA LHI. The gain on sale of SBA and USDA loans is recorded in government guaranteed loan income, net, in the Company's consolidated statements of income.

6. Fair Value

The following table summarizes assets measured at fair value on a recurring basis as of March 31, 2022 and December 31, 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	March 31, 2022			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial Assets:				
AFS debt securities	$ —	$ 1,063,249	$ —	$ 1,063,249
Equity securities with a readily determinable fair value	10,525	—	—	10,525
PPP loans	—	18,512	—	18,512
Loans held for sale[(1)]	—	15,565	—	15,565
Interest rate swap designated as hedging instruments	—	13,931	—	13,931
Correspondent interest rate swaps not designated as hedging instruments	—	15,462	—	15,462
Customer interest rate swaps not designated as hedging instruments	—	289	—	289
Correspondent interest rate caps and collars not designated as hedging instruments	—	1	—	1
Financial Liabilities:				
Interest rate swap designated as hedging instruments	$ —	$ 21,453	$ —	$ 21,453
Correspondent interest rate swaps not designated as hedging instruments	—	348	—	348
Customer interest rate swaps not designated as hedging instruments	—	15,327	—	15,327
Customer interest rate caps and collars not designated as hedging instruments	—	1	—	1

(1) Represents loans held for sale elected to be carried at fair value.

	December 31, 2021			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial Assets:				
AFS debt securities	$ —	$ 993,058	$ —	$ 993,058
Equity securities with a readily determinable fair value	11,038	—	—	11,038
PPP loans	—	53,369	—	53,369
Loans held for sale[(1)]	—	9,867	—	9,867
Interest rate swap designated as hedging instruments	—	7,001	—	7,001
Correspondent interest rate swaps not designated as hedging instruments	—	1,527	—	1,527
Customer interest rate swaps not designated as hedging instruments	—	3,261	—	3,261
Customer interest rate caps and collars not designated as hedging instruments	—	1	—	1
Financial Liabilities:				
Interest rate swap designated as hedging instruments	$ —	$ 1,404	$ —	$ 1,404
Correspondent interest rate swaps not designated as hedging instruments	—	3,498	—	3,498
Customer interest rate caps and collars not designated as hedging instruments	—	1,442	—	1,442
Correspondent interest rate caps and collars not designated as hedging instruments	—	1	—	1

(1) Represents loans held for sale elected to be carried at fair value.

There were no transfers between Level 2 and Level 3 during the three months ended March 31, 2022 and 2021.

The following table summarizes assets measured at fair value on a non-recurring basis as of March 31, 2022 and December 31, 2021, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements Using			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
As of March 31, 2022				
Assets:				
Collateral dependent loans with an ACL	$ —	$ —	$ 14,505	$ 14,505
Servicing assets with a valuation allowance	—	—	17,419	17,419
As of December 31, 2021				
Assets:				
Collateral dependent loans with an ACL	$ —	$ —	$ 10,100	$ 10,100
Servicing assets with a valuation allowance	—	—	3,223	3,223

At March 31, 2022, collateral dependent loans with an allowance had a recorded investment of $19,699, with $5,194 specific allowance for credit loss allocated. At December 31, 2021, impaired loans had a carrying value of $17,908, with $7,808 specific allowance for credit loss allocated.

At March 31, 2022, servicing assets of $18,327 had a valuation allowance totaling $908. At December 31, 2021, servicing assets of $3,850 had a valuation allowance totaling $627.

There were no liabilities measured at fair value on a non-recurring basis as of March 31, 2022 or December 31, 2021.

Fair Value of Financial Instruments

The Company’s methods of determining fair value of financial instruments in this Note are consistent with its methodologies disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. Please refer to Note 17 in the Company’s Annual Report on Form 10-K for information on these methods.

The estimated fair values and carrying values of all financial instruments not measured at fair value on a recurring basis under current authoritative guidance as of March 31, 2022 and December 31, 2021 were as follows:

	Carrying Amount	Fair Value		
		Level 1	Level 2	Level 3
March 31, 2022				
Financial assets:				
Cash and cash equivalents	$ 551,573	$ —	$ 551,573	$ —
HTM debt securities	181,265	—	169,818	—
Securities purchased under agreements to resell	100,818	—	100,818	—
Loans held for sale[(1)]	3,156	—	3,156	—
PPP Loans	18,512	—	—	18,512
LHI, excluding PPP loans[(2)]	7,649,794	—	—	7,537,714
Accrued interest receivable	23,356	—	23,356	—
BOLI	83,641	—	83,641	—
Servicing asset	749	—	749	—
Equity securities without a readily determinable fair value	4,355	N/A	N/A	N/A
FHLB and FRB stock	71,983	N/A	N/A	N/A
Financial liabilities:				
Deposits	$ 7,889,596	$ —	$ 7,401,333	$ —
Advances from FHLB	777,522	—	770,158	—
Accrued interest payable	1,292	—	1,292	—
Subordinated debentures and subordinated notes	228,018	—	228,018	—
Securities sold under agreement to repurchase	4,996	—	5,017	—
December 31, 2021				
Financial assets:				
Cash and cash equivalents	$ 379,784	$ —	$ 379,784	$ —
HTM debt securities	59,436	—	61,446	—
Securities purchased under agreements to resell	102,288	—	102,288	—
Loans held for sale[(1)]	16,140	—	16,140	—
LHI[(2)]	7,259,233	—	—	7,283,992
Accrued interest receivable	22,008	—	22,008	—
Bank-owned life insurance	83,194	—	83,194	—
Servicing asset	14,482	—	14,482	—
Equity securities without a readily determinable fair value	4,355	N/A	N/A	N/A
FHLB and FRB stock	71,892	N/A	N/A	N/A
Financial liabilities:				
Deposits	$ 7,363,615	$ —	$ 7,145,175	$ —
Advances from FHLB	777,562	—	796,480	—
Accrued interest payable	1,507	—	1,507	—
Subordinated debentures and subordinated notes	227,764	—	227,764	—
Securities sold under agreement to repurchase	4,069	—	4,026	—

[(1)] Loans held for sale represent mortgage loans held for sale that are carried at lower of cost or market.
[(2)] LHI includes MW and is carried at amortized cost.

7. Derivative Financial Instruments

The Company primarily uses derivatives to manage exposure to market risk, including interest rate risk and credit risk and to assist customers with their risk management objectives. Management will designate certain derivatives as hedging instruments in a qualifying hedge accounting relationship. The Company's remaining derivatives consist of derivatives held for customer accommodation or other purposes.

The fair value of derivative positions outstanding is included in other assets and accounts payable and other liabilities on the accompanying consolidated balance sheets and in the net change in each of these financial statement line items in the accompanying consolidated statements of cash flows. For derivatives not designated as hedging instruments, swap fee income and gains and losses due to changes in fair value are included in other noninterest income and the operating section of the consolidated statement of cash flows. For derivatives designated as hedging instruments, the entire change in the fair value related to the derivative instrument is recognized as a component of other comprehensive income and subsequently reclassified into interest income or interest expense when the forecasted transaction affects income. The notional amounts and estimated fair values as of March 31, 2022 and December 31, 2021 are as shown in the table below.

	March 31, 2022			December 31, 2021		
		Estimated Fair Value			Estimated Fair Value	
	Notional Amount	Asset Derivative	Liability Derivative	Notional Amount	Asset Derivative	Liability Derivative
Derivatives designated as hedging instruments (cash flow hedges):						
Interest rate swap on money market deposit account payments	$ 250,000	$ 13,931	$ —	$ 250,000	$ 4,541	$ —
Interest rate swap on customer loan interest payments	125,000	—	7,780	125,000	—	867
Interest rate swap on customer loan interest payments	125,000	—	7,450	125,000	—	537
Interest rate swap on customer loan interest payments	125,000	—	6,223	125,000	2,460	—
Total derivatives designated as hedging instruments	$ 625,000	$ 13,931	$ 21,453	$ 625,000	$ 7,001	$ 1,404
Derivatives not designated as hedging instruments:						
Financial institution counterparty:						
Interest rate swaps	$ 403,389	$ 15,462	$ 348	$ 379,787	$ 1,527	$ 3,498
Interest rate caps and collars	33,716	1	—	41,916	—	1
Commercial customer counterparty:						
Interest rate swaps	403,389	289	15,327	379,787	3,261	1,442
Interest rate caps and collars	33,716	—	1	41,916	1	—
Total derivatives not designated as hedging instruments	$ 874,210	$ 15,752	$ 15,676	$ 843,406	$ 4,789	$ 4,941
Offsetting derivative assets/liabilities	—	(11,353)	(11,353)	—	(2,609)	(2,609)
Total derivatives	$ 1,499,210	$ 18,330	$ 25,776	$ 1,468,406	$ 9,181	$ 3,736

Pre-tax gain (loss) included in the consolidated statements of income and related to derivative instruments for the three months ended March 31, 2022 and 2021 were as follows.

	For the Three Months Ended March 31, 2022			For the Three Months Ended March 31, 2021		
	Gain (loss) recognized in other comprehensive income on derivative	Gain (loss) reclassified from accumulated other comprehensive income into income	Location of gain (loss) reclassified from accumulated other comprehensive income into income	Gain recognized in other comprehensive income on derivative	Gain (loss) reclassified from accumulated other comprehensive income into income	Location of gain (loss) reclassified from accumulated other comprehensive income into income
Derivatives designated as hedging instruments (cash flow hedges):						
Interest rate swap on borrowing advances	$ (264)	$ 264	Interest Expense	$ 26,357	$ —	Interest Expense
Interest rate swap on money market deposit account payments	9,389	(171)	Interest Expense	3,895	(199)	Interest Expense
Commercial loan interest rate floor	—	—	Interest Income	—	541	Interest Income
Interest rate swaps on customer loan interest payments	(22,506)	1,078	Interest Income	(2,981)	224	Interest Income
Total	$ (13,381)	$ 1,171		$ 27,271	$ 566	
			Net gain recognized in other noninterest income			Net gain recognized in other noninterest income
Derivatives not designated as hedging instruments:						
Interest rate swaps, caps and collars			$ 719			$ 98

Cash Flow Hedges

Cash flow hedge relationships mitigate exposure to the variability of future cash flows or other forecasted transactions. The Company uses interest rate swaps, floors, caps and collars to manage overall cash flow changes related to interest rate risk exposure on benchmark interest rate loans.

In March 2021, the Company entered into three fixed receive/pay variable interest rate swaps, each with a notional amount of $125,000, to hedge the variability of cash flow payments attributable to changes in interest rates in regards to forecasted of three-month attributable to changes in interest rates in regards to forecasted money market account borrowings from March 2021 through March 2028 and March 2021 through March 2031.

In March 2020, the Company entered into an interest rate swap for a notional amount of $500,000 to hedge the variability of cash flow payments attributable to changes in interest rates in regards to forecasted issuances of three-month term debt arrangements every three months from March 2022 through March 2032. These forecasted borrowings can be sourced from a FHLB advance, repurchase agreement, brokered certificate of deposit or some combination. This interest rate swap was terminated on February 24, 2021. The pre-tax gain of $43,900, resulting from the termination of the interest rate swap, will remain in other comprehensive income (loss) and will be accreted over a 10 year period starting in March 2022 unless the forecasted transactions become probable of not occurring. The gain accreted into income during the three months months ended March 31, 2022 was $264.

In March 2020, the Company entered into an interest rate swap for a notional amount of $250,000 to hedge the variability of cash flow payments attributable to changes in interest rates in regards to forecasted money market account borrowings from March 2020 through March 2025.

In May 2019, the Company entered into a $275,000 notional interest rate floor for commercial loans with a two-year term. The interest rate floor had a purchased floor strike of 2.43%. In February 2020, the Company terminated this interest rate floor. The gain resulting from the termination of the interest rate floor will remain in other comprehensive income (loss) and will be accreted into earnings over the remaining period of the former hedging relationship unless the forecasted transaction becomes probable of not occurring.

Interest Rate Swap, Floor, Cap and Collar Agreements Not Designated as Hedging Derivatives

In order to accommodate the borrowing needs of certain commercial customers, the Company has entered into interest rate swap or cap agreements with those customers. These interest rate derivative contracts effectively allow the Company's customers to convert a variable rate loan into a fixed rate loan. In order to offset the exposure and manage interest rate risk, at the time an agreement was entered into with a customer, the Company entered into an interest rate swap or cap with a correspondent bank counterparty with offsetting terms. These derivative instruments are not designated as accounting hedges and changes in the net fair value are recognized in noninterest income or expense. Because the Company acts as an intermediary for its customers, changes in the fair value of the underlying derivative contracts substantially offset each other and do not have a material impact on the Company's results of operations. The fair value amounts are included in other assets and other liabilities.

The following is a summary of the interest rate swaps, caps and collars outstanding as of March 31, 2022 and December 31, 2021.

	March 31, 2022				
	Notional Amount	Fixed Rate	Floating Rate	Maturity	Fair Value
Non-hedging derivative instruments:					
Customer interest rate derivative:					
Interest rate swaps - receive fixed/pay floating	$ 403,389	2.970% - 8.470%	LIBOR 1 month + 2.2% - 5% SOFR CME 1 month + 2.1% - 3.8% SOFR-NYFD 30 day avg + 2.5% - 3.0%	Wtd. Avg. 4.6 years	$ (15,038)
Interest rate cap	$ 33,716	3.000%	LIBOR 1 month + —%	Wtd. Avg. 0.4 years	$ (1)
Correspondent interest rate derivative:					
Interest rate swaps - pay fixed/receive floating	$ 403,389	2.970% - 8.470%	LIBOR 1 month + 2.2% - 5% SOFR CME 1 month + 2.1% - 3.75% SOFR-NYFD 30 day avg + 2.5% - 3.0%	Wtd. Avg. 4.6 years	$ 15,114
Interest rate cap	$ 33,716	3.000%	LIBOR 1 month + —%	Wtd. Avg. 0.4 years	$ 1

	December 31, 2021				
	Notional Amount	Fixed Rate	Floating Rate	Maturity	Fair Value
Non-hedging derivative instruments:					
Customer interest rate derivative:					
Interest rate swaps - receive fixed/pay floating	$ 379,787	2.970% - 8.470%	LIBOR 1 month + 2.200% - 5.000% SOFR CME 1 month + 2.480% - 2.900% SOFR-NYFD 30 day avg + 2.500% - 2.964%	Wtd. Avg. 4.8 years	$ 1,820
Interest rate caps	$ 41,916	3.000% / 5.000%	LIBOR 1 month + —% - 2.500%	Wtd. Avg. 0.6 years	$ 1
Correspondent interest rate derivative:					
Interest rate swaps - pay fixed/receive floating	$ 379,787	2.970% - 8.470%	LIBOR 1 month + 2.200% - 5.000% SOFR CME 1 month + 2.480% - 2.900% SOFR-NYFD 30 day avg + 2.500% - 2.964%	Wtd. Avg. 4.8 years	$ (1,972)
Interest rate caps	$ 41,916	2.500% / 3.000%	LIBOR 1 month + —%	Wtd. Avg. 0.6 years	$ (1)

8. Off-Balance Sheet Loan Commitments

The Company 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, MW commitments and standby and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the other party to a financial instrument for commitments to extend credit, MW commitments and standby and commercial letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The following table sets forth the approximate amounts of these financial instruments as of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Commitments to extend credit	$ 4,021,956	$ 3,809,509
MW commitments	844,415	716,370
Standby and commercial letters of credit	75,495	65,881
Total	$ 4,941,866	$ 4,591,760

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. Management evaluates each customer's creditworthiness on a case-by-case basis and substantially all of the Company's commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of future loan funding. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

MW commitments are unconditionally cancellable and represent the unused capacity on MW facilities the Company has approved. The Company reserves the right to refuse to buy any mortgage loans offered for sale by a customer, for any reason, at the Company's sole and absolute discretion.

Standby and commercial letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby and commercial letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company's policy for obtaining collateral and the nature of such collateral is substantially the same as that involved in making commitments to extend credit.

The table below presents the activity in the allowance for unfunded commitment credit losses related to those financial instruments discussed above. This allowance is recorded in accounts payable and other liabilities on the consolidated balance sheets:

	Three Months Ended March 31,	
	2022	2021
Beginning balance for ACL on unfunded commitments	$ 9,266	$ 10,747
Provision (benefit) for credit losses on unfunded commitments	493	(570)
Ending balance of ACL on unfunded commitments	$ 9,759	$ 10,177

9. Stock-Based Awards

2010 Stock Option and Equity Incentive Plan (“2010 Incentive Plan”)

The Company recognized no stock compensation expense related to the 2010 Incentive Plan for the three months ended March 31, 2022 and 2021.

A summary of option activity under the 2010 Incentive Plan for the three months ended March 31, 2022 and 2021, and changes during the periods then ended, is presented below:

	2010 Incentive Plan			
	Non-Performance Based Stock Options			
	Shares Underlying Options	Weighted Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2021	20,000	$ 10.09	1.06	
Exercised	(18,300)	10.00		
Outstanding and exercisable at March 31, 2021	1,700	$ 10.37	1.69	
Outstanding at January 1, 2022	1,000	$ 10.43	1.07	$ 147
Outstanding and exercisable at March 31, 2022	1,000	$ 10.43	1.07	$ 68

As of March 31, 2022, December 31, 2021 and March 31, 2021 there was no unrecognized stock compensation expense related to non-performance based stock options.

A summary of the fair value of the Company’s stock options exercised under the 2010 Incentive Plan for the three months ended March 31, 2022 and 2021 is presented below:

	Fair Value of Options Exercised as of March 31,	
	2022	2021
Nonperformance-based stock options exercised	—	543

2019 Amended Plan and Green Acquired Omnibus Plans

2022 Grants of Restricted Stock Units

During the three months ending March 31, 2022, the Company granted non-performance-based RSUs and performance-based restricted stock units (“PSUs”) under the 2019 Amended and Restatement Omnibus Incentive Plan (the “2019 Amended Plan”) and the Veritex (Green) 2014 Omnibus Equity Incentive Plan (the “Veritex (Green) 2014 Plan”). The majority of the RSUs granted to employees during the three months ending March 31, 2022 have an annual graded vesting over a three year period from the grant date.

The PSUs granted in February 2022 are subject to a service, performance and market condition. The performance and market condition determine the number of awards to vest. The service period is from February 1, 2022 to January 31, 2025, the performance condition performance period is from January 1, 2022 to December 31, 2024 and the market condition performance period is from February 1, 2022 to January 31, 2025. A Monte Carlo simulation was used to estimate the fair value of PSUs on the grant date.

Stock Compensation Expense

Stock compensation expense for options, RSUs and PSUs granted under the 2019 Amended Plan and the Veritex (Green) 2014 Plan were as follows:

	Three Months Ended March 31,	
	2022	2021
2019 Amended Plan	$ 2,904	$ 1,981
Veritex (Green) 2014 Plan	414	497

2019 Amended Plan

A summary of the status of the Company's stock options under the 2019 Amended Plan as of March 31, 2022 and 2021, and changes during the three months then ended, is as follows:

	2019 Amended Plan			
	Non-performance Based Stock Options			
	Shares Underlying Options	Weighted Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2021	975,801	$ 24.26		
Granted	—	—		
Forfeited	(13,996)	25.93		
Exercised	(71,479)	23.03		
Outstanding at March 31, 2021	890,326	$ 24.34	7.54	
Options exercisable at March 31, 2021	560,176	$ 24.31	7.07	
Outstanding at January 1, 2022	710,043	$ 24.38		
Exercised	(38,128)	23.34		
Outstanding at March 31, 2022	671,915	$ 24.44	6.65	$ 9,226
Options exercisable at March 31, 2022	518,237	$ 24.45	6.35	$ 7,108

As of March 31, 2022, December 31, 2021 and March 31, 2021, there was $626, $803 and $2,047 of total unrecognized compensation expense related to options awarded under the 2019 Amended Plan, respectively. The unrecognized compensation expense at March 31, 2022 is expected to be recognized over the remaining weighted average requisite service period of 0.92 years.

A summary of the status of the Company's RSUs under the 2019 Amended Plan as of March 31, 2022 and 2021, and changes during the three months then ended, is as follows:

	2019 Amended Plan	
	RSUs	
	Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2021	441,132	$ 20.39
Granted	232,149	26.38
Vested into shares	(41,362)	23.29
Outstanding at March 31, 2021	631,919	$ 22.40
Outstanding at January 1, 2022	598,051	$ 23.39
Granted	169,355	40.77
Vested into shares	(96,141)	24.69
Forfeited	(2,350)	26.12
Outstanding at March 31, 2022	668,915	$ 27.59

A summary of the status of the Company's PSUs under the 2019 Amended Plan as of March 31, 2022 and 2021, and changes during the three months then ended, is as follows:

	2019 Amended Plan Performance-Based PSUs	
	Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2021	100,195	$ 23.20
Granted	56,276	26.12
Outstanding at March 31, 2021	156,471	$ 24.23
Outstanding at January 1, 2022	156,471	$ 24.17
Granted	39,429	40.38
Incremental PSUs granted upon performance condition met	31,655	
Vested into shares	(94,991)	21.49
Outstanding at March 31, 2022	132,564	$ 30.15

As of March 31, 2022, December 31, 2021 and March 31, 2021 there was $16,882, $10,413 and $14,217 of total unrecognized compensation related to RSUs and PSUs awarded under the 2019 Amended Plan, respectively. The unrecognized compensation expense at March 31, 2022 is expected to be recognized over the remaining weighted average requisite service period of 2.31 years.

A summary of the fair value of the Company's stock options exercised, RSUs and PSUs vested under the 2019 Amended Plan during the three months ended March 31, 2022 and 2021 is presented below:

	Fair Value of Options Exercised or RSUs Vested in the Three Months Ended March 31,	
	2022	2021
Non-performance-based stock options exercised	1,562	2,090
RSUs vested	2,524	1,113
PSUs vested	2,270	—

Veritex (Green) 2014 Plan

A summary of the status of the Company's stock options under the Veritex (Green) 2014 Plan as of March 31, 2022 and 2021, and changes during the three months then ended, is as follows:

	Non-performance Based Stock Options			
	Shares Underlying Options	Weighted Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2021	352,000	$ 19.99		
Forfeited	(3,960)	21.38		
Exercised	(54,241)	19.77		
Outstanding at March 31, 2021	293,799	$ 20.01	6.65	
Options exercisable at March 31, 2021	222,312	$ 18.84	6.19	
Outstanding at January 1, 2022	217,804	$ 19.62	6.13	$ 4,424
Exercised	(28,622)	21.34		
Outstanding at March 31, 2022	189,182	$ 19.37	5.57	$ 3,595
Options exercisable at March 31, 2022	180,830	$ 18.81	5.45	$ 3,501

As of March 31, 2022, December 31, 2021 and March 31, 2021, there was $75, $100, and $497 of total unrecognized compensation expense related to options awarded under the Veritex (Green) 2014 Plan, respectively. The unrecognized compensation expense at March 31, 2022 is expected to be recognized over the remaining weighted average requisite service period of 0.76 years.

A summary of the status of the Company's RSUs under the Veritex (Green) 2014 Plan as of March 31, 2022 and 2021 and changes during the three months then ended, is as follows:

	RSUs	
	Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2021	156,187	$ 21.15
Granted	5,692	26.12
Vested into shares	(33,335)	21.38
Forfeited	(2,646)	24.25
Outstanding at March 31, 2021	125,898	$ 21.25
Outstanding at January 1, 2022	122,784	$ 21.13
Granted	4,231	40.38
Vested into shares	(32,931)	21.80
Forfeited	(2,558)	29.13
Outstanding at March 31, 2022	91,526	$ 21.55

A summary of the status of the Company's PSUs under the Veritex (Green) 2014 Plan as of March 31, 2022 and 2021 and changes during the three months then ended, is as follows:

	PSUs	
	Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2021	30,728	$ 21.43
Granted	6,231	26.12
Forfeited	(724)	19.69
Outstanding at March 31, 2021	36,235	$ 22.27
Outstanding at January 1, 2022	35,899	$ 22.26
Granted	4,411	40.38
Incremental PSUs granted upon performance condition met	10,566	
Vested into shares	(31,703)	19.69
Outstanding at March 31, 2022	19,173	$ 29.26

As of March 31, 2022, December 31, 2021 and March 31, 2021, there was $1,399, $1,252, and $2,429, respectively, of total unrecognized compensation related to outstanding RSUs and PSUs awarded under the Veritex (Green) 2014 Plan to be recognized over a remaining weighted average requisite service period of 2.13 years.

A summary of the fair value of the Company’s stock options exercised and RSUs vested under the Veritex (Green) 2014 Plan during the three months ended March 31, 2022 and 2021 presented below:

	Fair Value of Options Exercised or RSUs Vested in the Three Months Ended March 31,	
	2022	2021
Non-performance-based stock options exercised	$ 1,143	$ 1,582
RSUs vested	718	713
PSU vested	624	—

Green 2010 Plan

In addition to the Veritex (Green) 2014 Plan discussed earlier in this Note, the Company assumed the Green Bancorp Inc. 2010 Stock Option Plan (“Green 2010 Plan”).

A summary of the status of the Company’s stock options under the Green 2010 Plan as of March 31, 2022 and 2021, and changes during the three months then ended, is as follows:

	Green 2010 Plan			
	Non-performance Based Stock Options			
	Shares Underlying Options	Weighted Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2021	131,083	$ 11.60		
Exercised	(62,000)	10.50		
Outstanding at March 31, 2021	69,083	$ 12.59	2.90	
Outstanding at January 1, 2022	66,143	$ 12.56		
Exercised	(1,372)	13.07		
Outstanding at March 31, 2022	64,771	$ 12.55	1.95	$ 1,659

A summary of the fair value of the Company’s stock options exercised under the Green 2010 Plan during the three months ended March 31, 2022 and 2021 presented below:

	Fair Value of Options Exercised as of March 31,	
	2022	2021
Nonperformance-based stock options exercised	56	1,812

10. Income Taxes

Income tax expense for the three months ended March 31, 2022 and 2021 was as follows:

	Three Months Ended March 31,	
	2022	2021
Income tax expense for the period	$ 8,102	$ 8,993
Effective tax rate	19.5 %	22.1 %

For the three months ended March 31, 2022, the Company had an effective tax rate of 19.5%. The Company had a net discrete tax benefit of $992 associated with the recognition an excess tax benefit realized on share-based payment awards during the three months ended March 31, 2022. Excluding this discrete tax item, the Company had an effective tax rate of 21.9% for the three months ended March 31, 2022.

For the three months ended March 31, 2021, the Company had an effective tax rate of 22.1%. The Company had a net discrete tax expense of $272 associated with the recognition of a $426 true-up of a deferred tax liability and $154 in excess tax benefit realized on share-based payment awards during the three months ended March 31, 2021. Excluding this discrete tax item, the Company had an effective tax rate of 21.4% for the three months ended March 31, 2021.

11. Legal Contingencies

Litigation

The Company may from time to time be involved in legal actions arising from normal business activities. In the opinion of management, there are no claims for which it is reasonably possible that an adverse outcome would have a material effect on the Company's financial position, liquidity or results of operations. The Company is not aware of any material unasserted claims.

12. Capital Requirements and Restrictions on Retained Earnings

Under applicable U.S. banking laws, there are legal restrictions limiting the amount of dividends the Company can declare. Approval of the regulatory authorities is required if, among other things, the effect of the dividends declared would cause regulatory capital of the Company to fall below specified minimum levels.

The Company on a consolidated basis and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements triggers certain mandatory actions and may lead to additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (“PCA”), the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and PCA classification are also subject to qualitative judgments by the regulators about components of capital, risk weightings of assets, and other factors. In addition, an institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios, if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

Under the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 and implementing regulations of the federal banking agencies, certain banking organizations with less than $10 billion in total consolidated assets may elect to satisfy a single Community Bank Leverage Ratio (“CBLR”) of Tier 1 capital to average total consolidated assets in lieu of the generally applicable capital requirements of the capital rules implementing Basel III. Banks meeting all of the requirements under this framework are not required to report or calculate risk-based capital, and will be considered to have met the well-capitalized ratio requirements under PCA regulations. The Bank was eligible and elected to use the CBLR framework as of December 31, 2020; however, the Bank was no longer eligible to use the CBLR framework beginning as of June 30, 2021.

As a result of our no longer using the CBLR framework, we are subject to various quantitative measures established by regulation to ensure capital adequacy. These generally applicable capital requirements require a banking organization that does not operate under the CBLR framework to maintain minimum amounts and ratios (set forth in the table below) of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. The capital rules implementing Basel III also include a “capital conservation buffer” of 2.5% on top of each of the minimum risk-based capital ratios, and a banking organization with any risk-based capital ratio that meets or exceeds the minimum requirement but does not meet the capital conservation buffer will face constraints on dividends, equity repurchases and discretionary bonus payments based on the amount of the shortfall. Additionally, to be categorized as “well capitalized,” a bank that does not operate under the CBLR framework is required to maintain minimum total risk-based common equity Tier 1, Tier 1, and total capital ratios and Tier 1 leverage ratios as set forth in the table below.

As of March 31, 2022 and December 31, 2021, the Company’s and the Bank’s capital ratios exceeded those levels necessary to be categorized as “well capitalized”. There are no conditions or events since March 31, 2022 that management believes have changed the Company’s category.

In the first quarter of 2020, U.S. federal regulatory authorities issued an interim final rule that provides banking organizations that adopt CECL during the 2020 calendar year with the option to delay for two years the estimated impact of

CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three-year transition period to phase out the aggregate amount of the capital benefit provided during the initial two-year delay (i.e., a five-year transition in total). In connection with our adoption of CECL on January 1, 2020, the Company elected to utilize the five-year CECL transition. As a result, the effects of CECL on the Company's and the Bank's regulatory capital was delayed through the year 2021, with the effects phased-in over a three-year period from January 1, 2022 through December 31, 2024.

A comparison of the Company's and Bank's actual capital amounts and ratios to required capital amounts and ratios is presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under PCA Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2022						
Total capital (to risk-weighted assets "RWA")						
Company	$ 1,276,341	12.73 %	$ 802,100	8.0 %	n/a	n/a
Bank	1,245,323	12.42	802,140	8.0	$ 1,002,676	10.0 %
Tier 1 capital (to RWA)						
Company	1,016,916	10.14	601,725	6.0	n/a	n/a
Bank	1,183,396	11.80	601,727	6.0	802,302	8.0
Common equity tier 1 (to RWA)						
Company	987,414	9.84	451,561	4.5	n/a	n/a
Bank	1,183,396	11.80	451,295	4.5	651,871	6.5
Tier 1 capital (to average assets)						
Company	1,016,916	10.66	381,582	4.0	n/a	n/a
Bank	1,183,396	12.41	381,433	4.0	476,791	5.0
As of December 31, 2021						
Total capital (to RWA)						
Company	$ 1,100,404	11.60 %	$ 758,899	8.0 %	n/a	n/a
Bank	1,053,871	11.11	758,863	8.0	$ 948,579	10.0 %
Tier 1 capital (to RWA)						
Company	843,585	8.89	569,349	6.0	n/a	n/a
Bank	994,351	10.48	569,285	6.0	759,047	8.0
Common equity tier 1 (to RWA)						
Company	814,138	8.58	426,995	4.5	n/a	n/a
Bank	994,351	10.48	426,964	4.5	616,725	6.5
Tier 1 capital (to average assets)						
Company	843,585	9.05	372,855	4.0	n/a	n/a
Bank	994,351	10.69	372,068	4.0	465,085	5.0

Dividend Restrictions

Dividends paid by the Bank are subject to certain restrictions imposed by regulatory agencies. Capital requirements further limit the amount of dividends that may be paid by the Bank. No dividends were paid by the Bank to the Holdco during the three months ended March 31, 2022. Dividends of $8,440 were paid by the Bank to the Holdco during the three months ended March 31, 2021.

Dividends of $9,913, or $0.20 per outstanding share on the applicable record date, were paid by the Company during the three months ended March 31, 2022. Dividends of $8,358, or $0.17 per outstanding share on the applicable record date, were paid by the Company during the three months ended March 31, 2021.

The Bank is subject to limitations on dividend payouts if, among other things, it does not have a capital conservation buffer of 2.5% or more. The Bank had a capital conservation buffer of 4.42% as of March 31, 2022.

13. Business Combinations

NAC

On November 1, 2021, the Company completed its acquisition of NAC. Under this method of accounting, assets acquired and liabilities assumed are recorded at their estimated fair values. The excess cost over fair value of net assets acquired is recorded as goodwill. As the consideration paid for NAC exceeded the provisional value of the net assets acquired, goodwill of $32,931 related to the acquisition was recorded. This goodwill resulted from the combination of expected operational synergies and increased market share in the fragmented USDA lending space. The goodwill will be deducted for tax purposes.

The acquisition makes the Bank a leading player in the USDA Business and Industry lending program. It furthered the Company's strategy of diversifying revenue streams and providing meaningful gain on sale and loan servicing fees. The Company will leverage NAC's loan sourcing technology to further enhance the Company's products and services.

Consideration

Under the terms of the definitive agreement for the acquisition, the Bank paid $57,500 in cash to existing shareholders of NAC. Three years after the transaction, NAC has the right, subject to adjustment, to receive an additional $5,000 in cash subject to certain performance measures. NAC will continue to operate under its current name and brand and in its current office space, as a wholly owned subsidiary of the Bank.

Fair Value

The following table presents the amounts recorded on the consolidated balance sheets on the acquisition date of November 1, 2021, showing the estimated fair value as reported at December 31, 2021, the measurement period adjustments and the fair value determined to be final as of March 31, 2022.

	Estimate at December 31, 2021	Measurement Period Adjustments	Final Fair Value
Assets acquired			
Cash and cash equivalents	1,978	—	1,978
LHI	29,338	(681)	28,657
Servicing asset	13,913	—	13,913
Other assets	690	—	690
	45,919	(681)	45,238
Liabilities assumed			0
Accounts payable and other accrued expenses	16,350	—	16,350
	16,350	—	16,350
Fair value of net assets acquired	29,569	(681)	28,888
Consideration:			—
Cash paid	57,500	—	57,500
Contingent consideration	5,000	—	5,000
Total consideration	$ 62,500	$ —	$ 62,500
Goodwill	$ 32,931	$ 681	$ 33,612

Acquisition-related Expenses

For the three months ended March 31, 2022, the Company incurred no pre-tax merger and acquisition expenses. For the year ended December 31, 2021, the Company incurred $826 of pre-tax merger and acquisition expenses.

Acquired Loans and PCD Loans

Acquired loans were recorded at fair value based on a discounted cash flow valuation methodology that considers, among other things, projected default rates, loss given defaults and recovery rates. No ACL was carried over from NAC. The Bank did not identify any acquired PCD loans.

The following table discloses the fair value and contractual value of loans acquired from NAC on November 1, 2021:

	Total acquired loans
Commercial	$ 26,519
Commercial Real Estate	2,138
Total fair value	$ 28,657
Contractual principal balance	$ 29,338

Supplemental Pro Forma Information (unaudited)

The following table presents supplemental pro forma information for the years ended December 31, 2020 and 2019 as if the NAC acquisition was completed as of January 1, 2019. The pro forma results combine the historical results of NAC into the Company's consolidated statements of income, including the impact of certain purchase accounting adjustments, including loan discount accretion. The pro forma results have been prepared for comparative purposes only and are not necessarily indicative of the results that would have been obtained had the acquisition actually occurred on January 1, 2019:

	Year Ended December 31,	
	2020	2019
Net interest income	$ 267,331	$ 286,313
Net income	84,368	93,939
Basic EPS	$ 1.69	$ 1.77
Diluted EPS	1.69	1.74

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and notes thereto appearing in Item 1 of Part I of this Quarterly Report on Form 10-Q (this “Report”) as well as with our consolidated financial statements and notes thereto appearing in our Annual Report on Form 10-K for the year ended December 31, 2021. Except where the content otherwise requires or when otherwise indicated, the terms “Veritex,” the “Company,” “we,” “us,” “our,” and “our business” refer to the combined entities of Veritex Holdings, Inc. and its subsidiaries, including Veritex Community Bank.

This discussion and analysis contains forward-looking statements that are subject to certain risks and uncertainties and are based on certain assumptions that we believe are reasonable but may prove to be inaccurate. Certain risks, uncertainties and other factors, including those set forth under “Special Cautionary Notice Regarding Forward-Looking Statements,” may cause actual results to differ materially from the projected results discussed in the forward-looking statements appearing in this discussion and analysis. We assume no obligation to update any of these forward-looking statements. For additional information concerning forward-looking statements, please read “Special Cautionary Notice Regarding Forward-Looking Statements” below.

Overview

We are a Texas state banking organization with corporate offices in Dallas, Texas. Through our wholly owned subsidiary, Veritex Community Bank, a Texas state-chartered bank, we provide relationship-driven commercial banking products and services tailored to meet the needs of small to medium-sized businesses and professionals. Beginning at our operational inception in 2010, we initially targeted customers and focused our acquisitions primarily in the Dallas metropolitan area, which we consider to be Dallas and the adjacent communities in North Dallas. Our current primary markets now includes the broader Dallas-Fort Worth metroplex and the Houston metropolitan area. As we continue to grow, we may expand to other metropolitan banking markets in Texas.

Our business is conducted through one reportable segment, community banking, which generates the majority of our revenues from interest income on loans, customer service and loan fees, gains on sale of government guaranteed loans and mortgage loans and interest income from securities. We incur interest expense on deposits and other borrowed funds and noninterest expense, such as salaries, employee benefits and occupancy expenses. We analyze our ability to maximize income generated from interest earning assets and expense of our liabilities through net interest margin. Net interest margin is a ratio calculated as net interest income divided by average interest-earning assets. Net interest income is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings, which are used to fund those assets.

Changes in the market interest rates and interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets, and interest-bearing and noninterest-bearing liabilities, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in Texas and, specifically, in the Dallas-Fort Worth metroplex and Houston metropolitan area, as well as developments affecting the real estate, technology, financial services, insurance, transportation, manufacturing and energy sectors within our target markets and throughout the state of Texas.

Recent Developments

COVID-19 Effects, Actions and Recent Developments

Overview. Our business has been, and continues to be, impacted by the outbreak of COVID-19. In March 2020, COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the President of the United States. Efforts to limit the spread of COVID-19 have included quarantines/shelter-in-place orders, the closure or limiting capacity of businesses, travel restrictions, supply chain limitations and prohibitions on public gatherings, among other things, throughout many parts of the United States and, in particular, the markets in which we operate. As the current pandemic is ongoing and dynamic in nature, there are many uncertainties related to COVID-19 including, among other things, its severity; the duration of the outbreak; the impact to our customers, employees and vendors; the impact to the financial services and

banking industry; and the impact to the economy as a whole as well as the effect of actions taken, or that may yet be taken, or inaction by governmental authorities to contain the outbreak or to mitigate its impact (both economic and health-related). COVID-19 has negatively affected, and is expected to continue to affect, our business, financial position and operating results. In light of the uncertainties and continuing developments discussed herein, the ultimate adverse impact of COVID-19 cannot be reliably estimated at this time, but it has been and is expected to continue to be material. The longer-term potential impact on our business could depend to a large extent on future developments and actions taken by authorities and other entities to contain COVID-19 and its economic impact. Furthermore, the sustainability of the economic recovery observed in 2021 remains unclear and significant volatility could continue for a prolonged period as the potential exists for additional variants of COVID-19, including the recent Omicron variant, to impede the global economic recovery and exacerbate geographic differences in the spread of, and response to, COVID-19.

Impact on our Operations. In 2020, the State of Texas and many other jurisdictions declared health emergencies. The resulting closures and/or limited operations of non-essential businesses and related economic disruption impacted our operations as well as the operations of our customers. Financial services were identified as a Critical Infrastructure Sector by the Department of Homeland Security. Accordingly, our business remained open and we implemented our Business Continuity and Health Emergency Response plans to address the issues arising as a result of COVID-19 and to facilitate the continued delivery of essential services while maintaining a high level of safety for our customers as well as our employees. Nonetheless, as the COVID-19 pandemic continues to be on-going, there continues to be uncertainties related to its magnitude, duration and persistent effects. This is particularly the case with the emergence, contagiousness and threat of new and different strains of the virus as well as the availability, acceptance and effectiveness of vaccines. As such, the COVID-19 pandemic could still, among other things, greatly affect our routine and essential operations due to staff absenteeism, particularly among key personnel; result in limited access to or closures of our branch facilities and other physical offices; exacerbate operational, technical or security-related risks arising from a remote workforce; and result in adverse government or regulatory agency orders. Additionally, we are experiencing an increasingly competitive labor market due to an on-going labor shortage which has impacted and could continue to impact our ability to staff open positions and/or retain existing employees and has resulted in and could continue to result in an increase in our staffing costs. The business and operations of our third-party service providers, many of whom perform critical services for our business, could also be significantly impacted by many of these same issues, which in turn could impact us. As a result, we continue to be unable to fully assess or predict the extent of the effects of COVID-19 on our operations as the ultimate impact will depend on factors that are currently unknown and/or beyond our control.

Impact on our Financial Position and Results of Operations. Our financial position and results of operations are particularly susceptible to the ability of our loan customers to meet loan obligations, the availability of our workforce, the availability of our vendors and the decline in the value of assets held by us. While its effects continue to be on-going, the COVID-19 pandemic resulted in a significant decrease in commercial activity throughout the State of Texas as well as nationally. This decrease in commercial activity caused and, in light of new and different strains of the virus, may yet further cause our customers (including affected businesses and individuals), vendors and counterparties to be unable to meet existing payment or other obligations to us. The national public health crisis arising from the COVID-19 pandemic (and public expectations about it), combined with other factors, including, but not limited to, inflation, labor shortages, supply chain disruption and further oil price volatility, could, despite improvements in 2021, again destabilize the financial markets and geographies in which we operate. The resulting economic pressure on consumers and uncertainty regarding the sustainability of any economic improvements could further impact the creditworthiness of potential and current borrowers. Borrower loan defaults that adversely affect our earnings correlate with deteriorating economic conditions, which, in turn, are likely to impact our borrowers' creditworthiness and our ability to make loans. See further information related to the risk exposure of our loan portfolio under the sections captioned "Loans" and "Allowance for Credit Losses" elsewhere in this discussion.

In addition, the economic pressures and uncertainties arising from the COVID-19 pandemic have resulted in and may continue to result in specific changes in consumer and business spending and borrowing and saving habits, affecting the demand for loans and other products and services we offer. Consumers affected by COVID-19 may continue to demonstrate changed behavior even after the crisis is over. For example, consumers may decrease discretionary spending on a permanent or long-term basis and certain industries may take longer to recover (particularly those that rely on travel or large gatherings) as consumers may be hesitant to return to full social interaction. We lend to customers operating in such industries including energy, hotels/lodging, restaurants, entertainment and commercial real estate, among others, that have been significantly impacted by COVID-19 and we are continuing to monitor these customers closely. Additionally, the temporary closures of bank branches in 2020 and the safety precautions implemented at re-opened branches could result in consumers becoming more comfortable with technology and devaluing face-to-face interaction. Our business is relationship driven and such changes could necessitate changes to our business practices to accommodate changing consumer behaviors.

Legislative and Regulatory Actions. Actions taken by the federal government and the Federal Reserve and other bank regulatory agencies to mitigate the economic effects of COVID-19 have impacted our financial position and results of operations. These actions are further discussed below.

During 2020, in an effort to provide monetary stimulus to counteract the economic disruption caused by COVID-19, the Federal Reserve:

- Expanded reverse repo operations, adding liquidity to the banking system.
- Restarted quantitative easing.
- Lowered the interest rate at the discount window by 1.5% to 0.25%.
- Reduced reserve requirement ratios to zero percent.
- Encouraged banks to use their capital and liquidity buffers to lend.
- Introduced and expanded several new temporary programs to help preserve market liquidity.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was enacted. The CARES Act contains substantial tax and spending provisions intended to address the impact of the COVID-19 pandemic, including the Paycheck Protection Program ("PPP"), a loan program administered by the U.S. Small Business Administration ("SBA"). Under the PPP, small businesses, sole proprietorship's, independent contractors and self-employed individuals were eligible to apply for forgivable loans from existing SBA lenders and other approved lenders that enrolled in the program, subject to numerous limitations and eligibility criteria. Subsequent legislation, including as noted below, allocated additional funding to the PPP. The Consolidated Appropriations Act, 2021, enacted on December 27, 2020, provided additional funding for the PPP and allowed eligible borrowers, including certain borrowers who already received a PPP loan, to apply for PPP loans through March 31, 2021. The SBA began accepting PPP applications under the Consolidated Appropriations Act, 2021 on January 13, 2021. The American Rescue Plan Act of 2021, enacted on March 11, 2021, expanded the eligibility criteria for PPP loans and revised the exclusions from payroll costs for purposes of loan forgiveness. The PPP Extension Act of 2021, enacted on March 30, 2021, extended the PPP through May 31, 2021.

Banks and bank holding companies have been particularly impacted by the COVID-19 pandemic as a result of disruption and volatility in the global capital markets. We are closely monitoring the potential for new laws and regulations impacting lending and funding practices as well as capital and liquidity standards. Such changes could require us to maintain significantly more capital, with common equity as a more predominant component, or manage the composition of our assets and liabilities to comply with formulaic liquidity requirements.

Veritex Response. We have taken deliberate actions to ensure that we have the balance sheet strength to serve our clients and communities during the COVID-19 pandemic, including increasing our liquidity and reserves supported by a strong capital position. In order to protect the health of our customers and employees, and to comply with applicable governmental directives, we implemented our operational response and preparedness plan, which includes, among other things, dispersion of critical operation processes, increased monitoring focused on higher risk operations, enhanced remote access security and further restricted internet access, enhanced security around wire transfer execution and flexible scheduling provided to employees who are unable to work from home.

Beginning in early April 2020, we began processing loan applications under the PPP, and in January 2021 we began processing applications under the latest round of the PPP. The Company believes that the majority of these loans will ultimately be forgiven by the SBA in accordance with the terms of the program. If a loan is fully forgiven, the SBA will repay the lending bank in full. If a loan is partially forgiven or not forgiven at all, a bank must look to the borrower for repayment of unforgiven principal and interest. If the borrower defaults, the loan is guaranteed by the SBA. In order to obtain loan forgiveness, a PPP borrower must submit a forgiveness application. The SBA began approving forgiveness applications on October 2, 2020.

Uncertainties in certain future economic conditions exist, and we have taken deliberate actions in response to these uncertainties, including increased levels of on balance sheet liquidity and increased capital ratio levels. We continue to monitor the impact of COVID-19 closely, as well as any effects that may result from the CARES Act and the subsequent legislation enacted in connection with the COVID-19 pandemic, as discussed above; however, the extent to which the COVID-19 pandemic will impact our operations and financial results is highly uncertain.

Capital and liquidity

As of March 31, 2022, all of our and the Bank’s capital ratios were in excess of all regulatory requirements. While we believe that we have sufficient capital to withstand an extended economic recession brought about by the COVID-19 pandemic, our reported and regulatory capital ratios could be adversely impacted by further credit losses. We rely on cash on hand as well as dividends from the Bank to service our debt. If our capital deteriorates such that the Bank is unable to pay dividends to us for an extended period of time, we may not be able to service our debt.

We maintain access to multiple sources of liquidity. Wholesale funding markets have remained open to us with stable and low rates for short term funding. If an economic recession caused large numbers of our deposit customers to withdraw their funds, we might become more reliant on volatile or more expensive sources of funding.

Asset valuation

Currently, we do not expect the COVID-19 pandemic to affect our ability to account timely for the assets on our balance sheet; however, this could change in future periods. While certain valuation assumptions and judgments will change to account for pandemic-related circumstances such as widening credit spreads, we do not anticipate significant changes in methodology used to determine the fair value of assets measured in accordance with GAAP.

Results of Operations for the Three Months Ended March 31, 2022 and 2021

General

Net income for the three months ended March 31, 2022 was $33.5 million, an increase of $1.7 million, or 5.3%, from net income of $31.8 million for the three months ended March 31, 2021.

Basic EPS for the three months ended March 31, 2022 and 2021 was $0.66. Diluted EPS for the three months ended March 31, 2022 was $0.65, an increase of $0.01 from $0.64 for the three months ended March 31, 2021.

Net Interest Income

For the three months ended March 31, 2022, net interest income totaled $73.0 million and net interest margin and net interest spread were 3.22% and 3.04%, respectively. For the three months ended March 31, 2021, net interest income totaled $65.6 million and net interest margin and net interest spread were 3.22% and 2.99%, respectively. The increase in net interest income was primarily due to a $4.0 million increase in interest income on loans and a $1.7 million decrease in certificates and other time deposits, a $479 thousand decrease in interest expense on subordinated debentures and subordinated debt and a $229 thousand decrease in interest-bearing demand and savings deposits during the three months ended March 31, 2022 compared to the three months ended March 31, 2021. Net interest margin was unchanged from 3.22% for the three months ended March 31, 2022 and 2021, primarily due to a decrease in average yields earned on loan balances, offset by decreases in the average rate paid on interest-bearing demand and savings deposits and certificate and other time deposits in the three months ended March 31, 2022. As a result, the average cost of interest-bearing deposits decreased to 0.26% for the three months ended March 31, 2022 from 0.45% for the three months ended March 31, 2021.

For the three months ended March 31, 2022, interest expense totaled $7.3 million and the average rate paid on interest-bearing liabilities was 0.50%. For the three months ended March 31, 2021, interest expense totaled $10.0 million and the average rate paid on interest-bearing liabilities was 0.72%. The year-over-year decrease was due to decreases in the average rates paid on interest-bearing demand and savings deposits and certificates and other time deposits and a change in deposit mix.

The following table presents, for the periods indicated, an analysis of net interest income by each major category of interest-earning assets and interest-bearing liabilities, the average amounts outstanding and the interest earned or paid on such amounts. The table also sets forth the average rates earned on interest-earning assets, the average rates paid on interest-bearing liabilities, and the net interest margin on average total interest-earning assets for the same periods. Interest earned on loans that are classified as nonaccrual is not recognized in income; however, the balances are reflected in average outstanding balances for the period. For the three months ended March 31, 2022 and 2021, interest income not recognized on nonaccrual loans was $889 thousand and $1.1 million, respectively. Any nonaccrual loans have been included in the table as loans carrying a zero yield.

	For the Three Months Ended March 31,					
	2022			2021		
	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Interest Paid	Average Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-earning assets:						
Loans[1]	$ 6,872,943	$ 68,297	4.03 %	$ 5,897,815	$ 62,702	4.31 %
LHI, MW	421,680	3,069	2.95	510,678	3,815	3.03
PPP loans	31,335	77	1.00	356,356	882	1.00
Debt Securities	1,140,834	7,762	2.76	1,063,538	7,437	2.84
Interest-earning deposits in other banks	554,864	262	0.19	341,483	127	0.15
Equity securities and other investments	190,002	910	1.94	87,178	663	3.08
Total interest-earning assets	9,211,658	80,377	3.54	8,257,048	75,626	3.71
ACL	(77,843)			(105,972)		
Noninterest-earning assets	865,107			790,195		
Total assets	$ 9,998,922			$ 8,941,271		
Liabilities and Stockholders' Equity						
Interest-bearing liabilities:						
Interest-bearing demand and savings deposits	$ 3,471,645	$ 1,751	0.20 %	$ 3,038,586	$ 1,980	0.26 %
Certificates and other time deposits	1,501,852	1,380	0.37	1,509,836	3,061	0.82
Advances from FHLB	777,538	1,547	0.81	777,694	1,812	0.94
Subordinated debentures and subordinated debt	231,875	2,659	4.65	265,356	3,138	4.80
Total interest-bearing liabilities	5,982,910	7,337	0.50	5,591,472	9,991	0.72
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	2,591,504			2,069,233		
Other liabilities	67,060			56,272		
Total liabilities	8,641,474			7,716,977		
Stockholders' equity	1,357,448			1,224,294		
Total liabilities and stockholders' equity	9,998,922			$ 8,941,271		
Net interest rate spread[2]			3.04 %			2.99 %
Net interest income		$ 73,040			$ 65,635	
Net interest margin[3]			3.22 %			3.22 %

[1] Includes average outstanding balances of loans held for sale of $12,769 and $16,602 for the three months ended March 31, 2022 and March 31, 2021, respectively, and average balances of LHI, excluding MW and PPP loans.
[2] Net interest rate spread is equal to the average yield on interest-earning assets minus the average rate on interest-bearing liabilities.
[3] Net interest margin is equal to net interest income divided by average interest-earning assets.

The following table presents the changes in interest income and interest expense for the periods indicated for each major component of interest-earning assets and interest-bearing liabilities and distinguishes between the changes attributable to changes in volume and interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been allocated to rate.

	For the Three Months Ended March 31, 2022 vs. 2021		
	Increase (Decrease) Due to Change in		
	Volume	Rate	Total
	(In thousands)		
Interest-earning assets:			
Loans	$ 10,367	$ (4,772)	$ 5,595
LHI, MW	(665)	(81)	(746)
PPP loans	(805)	—	(805)
Debt Securities	541	(216)	325
Equity securities and other investments	781	(534)	247
Interest-bearing deposits in other banks	79	56	135
Total increase (decrease) in interest income	10,298	(5,547)	4,751
Interest-bearing liabilities:			
Interest-bearing demand and savings deposits	282	(511)	(229)
Certificates and other time deposits	(16)	(1,665)	(1,681)
Advances from FHLB	—	(265)	(265)
Subordinated debentures and subordinated notes	(396)	(83)	(479)
Total decrease in interest expense	(130)	(2,524)	(2,654)
Increase (decrease) in net interest income	$ 10,428	$ (3,023)	$ 7,405

Provision for Credit Losses

Our provision for credit losses is a charge to income in order to bring our ACL to a level deemed appropriate by management. We recorded a benefit for credit losses of $500 thousand for the three months ended March 31, 2022, compared to no provision or benefit for the same period in 2021. For the three months ended March 31, 2022, we also recorded a $493 thousand provision for unfunded commitments, which was attributable to higher unfunded balances.

Noninterest Income

Our primary sources of recurring noninterest income are service charges and fees on deposit accounts, loan fees, gains on the sale of mortgage loans, government guaranteed loan income, net, equity method investment income, net, and other income. Noninterest income does not include loan origination fees, which are generally recognized over the life of the related loan as an adjustment to yield using the interest method.

The following table presents, for the periods indicated, the major categories of noninterest income:

	For the Three Months Ended March 31, 2022	For the Three Months Ended March 31, 2021	Increase (Decrease)
	(In thousands)		
Noninterest income:			
Service charges and fees on deposit accounts	$ 4,710	$ 3,629	$ 1,081
Loan fees	2,794	1,341	1,453
Gain on sales of mortgage loans	307	507	(200)
Government guaranteed loan income, net	4,891	6,548	(1,657)
Equity method investment income, net	367	—	367
Other	2,028	2,147	(119)
Total noninterest income	$ 15,097	$ 14,172	$ 925

Noninterest income for the three months ended March 31, 2022 increased $925 thousand, or 6.5%, to $15.1 million compared to noninterest income of $14.2 million for the same period in 2021. The primary driver of the increase was as follows:

Service charges and fees on deposit accounts. We earn service charges and fees from our customers for deposit-related activities. The income from these deposit activities constitutes a significant and predictable component of our noninterest income. Service charges and fees on deposit accounts were $4.7 million during the three months ended March 31, 2022, an increase of $1.1 million or 29.8%, over the same period in 2021. This increase was primarily due to increases in analysis charges of $636 thousand, ATM and debit card fees of $256 thousand, and other fee income of $163 thousand.

Loan fees. We earn certain fees in connection with funding and servicing loans. Loan fees were $2.8 million for the three months ended March 31, 2022 compared to $1.3 million for the same period in 2021. The increase of $1.5 million, or 108.4%, was primarily due to increases in syndication fees of $1.0 million and prepayment fees on CRE of $358 thousand.

Government guaranteed loan income, net. Government guaranteed loan income, net, includes non-interest income earned on PPP loans as well as income related to the sales of government guaranteed loans. The decrease in government guaranteed loan income, net, of $1.7 million or 25.3% was primarily due to the decrease of $6.6 million in fees earned on PPP loans for the three months ended March 31, 2021 with no corresponding PPP loan originations during the three months ended March 31, 2022. This decrease is offset by an increase of $4.2 million on the gain on sale of SBA and USDA loans, as well as an increase of $729 thousand in loan valuations during the three months ended March 31, 2022, compared to the same period in 2021.

Noninterest Expense

Noninterest expense is composed of all employee expenses and costs associated with operating our facilities, acquiring and retaining customer relationships and providing bank services. The major component of noninterest expense is salaries and employee benefits. Noninterest expense also includes operational expenses, such as occupancy expenses, depreciation and amortization of office equipment, professional fees and regulatory fees, data processing and software expenses, marketing expenses and amortization of intangibles.

The following table presents, for the periods indicated, the major categories of noninterest expense:

	For the Three Months Ended March 31,		
	2022	2021	Increase (Decrease)
		(In thousands)	
Salaries and employee benefits	$ 27,513	$ 22,932	$ 4,581
Non-staff expenses:			
Occupancy and equipment	4,517	4,096	421
Professional and regulatory fees	3,158	3,441	(283)
Data processing and software expense	2,921	2,319	602
Marketing	1,187	909	278
Amortization of intangibles	2,495	2,537	(42)
Telephone and communications	385	337	48
Merger and acquisition expense	700	—	700
Other	3,696	3,026	670
Total noninterest expense	$ 46,572	$ 39,597	$ 6,975

Noninterest expense for the three months ended March 31, 2022 increased $7.0 million, or 17.6%, to $46.6 million compared to noninterest expense of $39.6 million for the three months ended March 31, 2021. The most significant components of the increase were as follows:

Salaries and employee benefits. Salaries and employee benefits include payroll expense, the cost of incentive compensation, benefit plans, health insurance and payroll taxes. These expenses are impacted by the amount of direct loan origination costs, which are required to be deferred in accordance with ASC 310-20. Salaries and employee benefits were $27.5 million for the three months ended March 31, 2022, an increase of $4.6 million, or 20.0%, compared to the same period in 2021. The increase was primarily attributable to a (i) $2.7 million increase in salaries resulting from continued investment in talent, (ii) $960 thousand increase in stock-based compensation resulting from the vesting of February 1, 2019 performance restricted stock unit awards which vested at 150% due the Company’s performance (as defined by the equity awards) and (iii) $829 thousand increase in FICA taxes.

Merger and acquisition expense. This category includes legal, professional, audit, regulatory and other expenses incurred in connection with a pending or completed merger or acquisition. Merger and acquisition expenses incurred in the three months ended March 31, 2022, were related to our proposed transaction to acquire interLINK, a technology-enabled deposit gathering and processing platform which is expected to close in the third quarter of 2022.

Income Tax Expense

Income tax expense is a function of our pre-tax income, tax-exempt income and other nondeductible expenses. Deferred tax assets and liabilities reflect current statutory income tax rates in effect for the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. As of March 31, 2022, we did not believe a valuation allowance was necessary.

For the three months ended March 31, 2022, income tax expense totaled $8.1 million, a decrease of $891 thousand, compared to an income tax expense of $9.0 million for the same period in 2021. For the three months ended March 31, 2022, we had an effective tax rate of 19.5%. The decrease in the effective tax rate was primarily a result of the recognition of a $992 thousand excess tax benefit realized on share-based payment awards during the three months ended March 31, 2022. Excluding discrete tax items, the Company had an effective tax rate of 21.9% for the three months ended March 31, 2022.

Financial Condition

Our total assets increased $696.4 million, or 7.1%, from $9.8 billion as of December 31, 2021 to $10.5 billion as of March 31, 2022. Our asset growth was due to the continued execution of our strategy to establish deep relationships in the Dallas-Fort Worth metroplex and the Houston metropolitan area. We believe these relationships will continue to bring in new customer accounts and grow balances from existing loan and deposit customers.

Loan Portfolio

Our primary source of income is interest on loans to individuals, professionals, small to medium-sized businesses and commercial companies located in the Dallas-Fort Worth metroplex and Houston metropolitan area. Our loan portfolio consists primarily of commercial loans and real estate loans secured by commercial real estate ("CRE") properties located in our primary market areas. Our loan portfolio represents the highest yielding component of our interest-earning asset base.

As of March 31, 2022, total LHI, excluding ACL, was $7.7 billion, an increase of $294.5 million, or 4.0%, compared to $7.4 billion as of December 31, 2021. The increase was the result of the continued execution and success of our loan growth strategy. In addition to these amounts, $18.7 million and $26.0 million in loans were classified as held for sale as of March 31, 2022 and December 31, 2021, respectively.

Total LHI, excluding MW and PPP loans, as a percentage of deposits were 90.5% and 92.0% as of March 31, 2022 and December 31, 2021, respectively. Total LHI, excluding MW and PPP loans, as a percentage of assets were 68.2% and 69.3% as of March 31, 2022 and December 31, 2021, respectively.

The following table summarizes our loan portfolio by type of loan as of the dates indicated:

	As of March 31, 2022		As of December 31, 2021	
	Total	Percent	Total	Percent
	(Dollars in thousands)			
Commercial	$ 2,125,900	27.7 %	$ 2,006,876	27.3 %
MW	542,877	7.1 %	565,645	7.7 %
Real estate:				
Owner Occupied CRE (“OOCRE”)	633,615	8.3 %	665,537	9.1 %
Non-owner Occupied CRE (“NOOCRE”)	2,145,826	27.9 %	2,120,309	28.9 %
Construction and land	1,297,338	16.9 %	1,062,144	14.5 %
Farmland	48,095	0.6 %	55,827	0.8 %
1-4 family residential	604,408	7.9 %	542,566	7.4 %
Multifamily	272,250	3.5 %	310,241	4.2 %
Consumer	9,533	0.1 %	11,998	0.2 %
Total LHI, carried at amortized cost[1]	$ 7,679,842	100.0 %	$ 7,341,143	100.0 %
LHI, PPP loans, carried at fair value	$ 18,512	100.0 %	$ 53,369	100.0 %
Total loans held for sale	$ 18,721	100.0 %	$ 26,007	100.0 %

[1] Total LHI, carried at amortized cost, excludes $11.5 million and $9.5 million of deferred loan fees, net, as of March 31, 2022 and December 31, 2021, respectively.

Nonperforming Assets

The following table presents information regarding nonperforming assets at the dates indicated:

	As of March 31, 2022	As of December 31, 2021
	(Dollars in thousands)	
Nonaccrual loans[1]	$ 46,680	$ 49,687
Accruing loans 90 or more days past due	264	235
Total nonperforming loans	46,944	49,922
Other real estate owned:		
Commercial real estate, construction, land and land development	1,062	—
Total other real estate owned	1,062	—
Total nonperforming assets	$ 48,006	$ 49,922
Troubled debt restructured loans—nonaccrual	19,248	19,746
Troubled debt restructured loans—accruing	4,025	5,772
Ratio of nonperforming loans to total loans	0.66 %	0.74 %
Ratio of nonperforming assets to total assets	0.46 %	0.51 %

[1] At March 31, 2022 and December 31, 2021, nonaccrual loans included PCD loans of $10,678 and $11,506, respectively, not accounted for on a pooled basis.

The following table presents information regarding nonaccrual loans by category as of the dates indicated:

	As of March 31, 2022	As of December 31, 2021
	(In thousands)	
Commercial	$ 13,259	$ 15,267
Real estate:		
OOCRE	13,446	14,236
NOOCRE	17,739	17,978
1-4 family residential	1,005	990
Consumer	1,231	1,216
Total	$ 46,680	$ 49,687

Potential Problem Loans

The following tables summarize our internal ratings of our loans as of the dates indicated.

	March 31, 2022				
	Pass	Special Mention	Substandard	PCD	Total
Real estate:					
Construction and land	$ 1,293,849	$ 1,613	$ —	$ 1,876	$ 1,297,338
Farmland	48,095	—	—	—	48,095
1 - 4 family residential	601,355	344	1,547	1,162	604,408
Multi-family residential	250,586	21,664	—	—	272,250
OOCRE	566,643	10,036	34,336	22,600	633,615
NOOCRE	1,957,978	120,011	52,593	15,244	2,145,826
Commercial	2,021,437	42,632	54,391	7,440	2,125,900
MW	542,447	—	430	—	542,877
Consumer	8,051	76	1,236	170	9,533
Total	$ 7,290,441	$ 196,376	$ 144,533	$ 48,492	$ 7,679,842

	December 31, 2021				
	Pass	Special Mention	Substandard	PCD	Total
Real estate:					
Construction and land	$ 1,057,891	$ 1,905	$ —	$ 2,348	$ 1,062,144
Farmland	55,827	—	—	—	55,827
1 - 4 family residential	539,485	352	1,551	1,178	542,566
Multi-family residential	288,954	21,287	—	—	310,241
OOCRE	591,377	9,704	36,892	27,564	665,537
NOOCRE	1,922,455	97,562	82,092	18,200	2,120,309
Commercial	1,887,671	36,092	74,487	8,626	2,006,876
MW	565,100	—	545	—	565,645
Consumer	10,440	79	1,302	177	11,998
Total	$ 6,919,200	$ 166,981	$ 196,869	$ 58,093	$ 7,341,143

ACL on LHI

We maintain an ACL that represents management's best estimate of the credit losses and risks inherent in the loan portfolio. In determining the ACL, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the ACL is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of the loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates.

The following table presents, as of and for the periods indicated, an analysis of the ACL and other related data:

	As of March 31, 2022		As of December 31, 2021	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Real estate:				
Construction and land	$ 8,883	12.3 %	$ 7,293	9.4 %
Farmland	158	0.2	187	0.2
1 - 4 family residential	6,134	8.5	5,982	7.7
Multi-family residential	2,127	2.9	2,664	3.4
OOCRE	7,423	10.2	9,215	11.9
NOOCRE	26,954	37.2	30,548	39.3
Total real estate	$ 51,679	71.3 %	$ 55,889	71.9 %
Commercial	20,084	27.7	21,632	27.8
Consumer	722	1.0	233	0.3
Total ACL	$ 72,485	100.0 %	$ 77,754	100.0 %

The ACL decreased $5.3 million to $72.5 million as of March 31, 2022 from December 31, 2021. The decrease in the ACL compared to December 31, 2021 was primarily attributable to net charge-offs of $4.8 million and a decrease in specific reserves on certain nonaccrual loans slightly offset by an increase in general reserves as a result of continued loan growth.

The following table presents, as of and for the periods indicated, an analysis of the ACL and other related data:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
	(Dollars in thousands)	
Average loans outstanding, excluding PPP loans[(1)]	$ 7,294,623	$ 6,391,891
Amortized costs of loans outstanding at end of period excluding MW and PPP loans[(1)]	7,125,429	5,963,493
Amortized costs of loans outstanding at end of period, excluding PPP loans[(1)]	7,668,306	6,563,185
ACL at beginning of period	77,754	105,084
Benefit for credit losses	(500)	—
Charge-offs:		
Real estate:		
Residential	—	(15)
OOCRE	(1,341)	—
NOOCRE	(553)	—
Commercial	(3,294)	(346)
Consumer	(134)	(18)
Total charge-offs	(5,322)	(379)
Recoveries:		
Real estate:		
Residential	—	3
NOOCRE	400	—
Commercial	144	226
Consumer	9	2
Total recoveries	553	231
Net charge-offs	(4,769)	(148)
ACL at end of period	$ 72,485	$ 104,936
Ratio of ACL to end of period loans excluding MW and PPP loans	1.02 %	1.76 %
Ratio of net charge-offs to average loans	0.07 %	— %

(1) Excludes loans held for sale.

Although we believe that we have established our ACL in accordance with GAAP and that the ACL was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions will be subject to ongoing evaluations of the risks in our loan portfolio. If we experience economic declines or if asset quality deteriorates, material additional provisions could be required.

Equity Securities

As of March 31, 2022, we held equity securities with a readily determinable fair value of $10.5 million compared to $11.0 million as of December 31, 2021. These equity securities primarily represent investments in a publicly traded Community Reinvestment Act fund and are subject to market pricing volatility, with changes in fair value recorded in earnings.

The Company held equity securities without a readily determinable fair values and measured at cost of $4.4 million at March 31, 2022 and December 31, 2021, respectively. The Company measures equity securities that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Securities purchased under agreements to resell

As of March 31, 2022, we held securities purchased under agreements to resell of $100.8 million and we recognized interest income of $270 thousand during the three months ended March 31, 2022. We held no securities purchased under agreements to resell during the three months ended March 31, 2021. Securities purchased under agreements to resell typically mature 30 days from the settlement date, qualify as a secured borrowing and are measured at amortized cost.

FHLB Stock and FRB Stock

As of March 31, 2022, we held FHLB stock and FRB stock of $72.0 million compared to $71.9 million as of December 31, 2021. The Bank is a member of its regional FRB and of the FHLB system. FHLB members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. Both FRB and FHLB stock are carried at cost, restricted for sale, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Debt Securities

We use our debt securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements. As of March 31, 2022, the carrying amount of debt securities totaled $1.2 billion, an increase of $192.0 million, or 18.2%, compared to $1.1 billion as of December 31, 2021. The increase was primarily due to purchases of debt securities of $271.6 million and net unrealized gains $44.8 million, partially offset by maturities, calls, and paydowns of $33.9 million. Debt securities represented 11.9% and 10.8% of total assets as of March 31, 2022 and December 31, 2021, respectively. During the three months ended March 31, 2022, a portion of the AFS securities were reclassified to the HTM category.

All of our mortgage-backed securities and collateralized mortgage obligations are issued and/or guaranteed by U.S. government agencies or U.S. government-sponsored entities. We do not hold any Fannie Mae or Freddie Mac preferred stock, corporate equity, collateralized debt obligations, collateralized loan obligations, structured investment vehicles, private label collateralized mortgage obligations, subprime, Alt-A, or second lien elements in our investment portfolio. As of March 31, 2022, our investment portfolio did not contain any securities that are directly backed by subprime or Alt-A mortgages.

Management evaluates available for sale debt securities in unrealized loss positions to determine whether the impairment is due to credit-related factors or noncredit-related factors. Consideration is given to (1) the extent to which the fair value is less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value. As of March 31, 2022, management believes that available for sale securities in an unrealized loss position are due to noncredit-related factors, including changes in interest rates and other market conditions, and therefore no ACL have been recognized in the Company's consolidated balance sheets. The Company also recorded no ACL for its held to maturity debt securities as of March 31, 2022.

As of March 31, 2022 and December 31, 2021, we did not own securities of any one issuer other than U.S. government agency securities for which aggregate cost exceeded 10.0% of our stockholders' equity as of such respective dates.

Equity Method Investments

On July 16, 2021, the Bank completed an investment to acquire a 49% interest in Thrive Mortgage, LLC ("Thrive") for $54.9 million in cash and obtained the right to designate a member to Thrive's board of directors. As a result of the investment, we have a $35.8 million basis difference which is being accounted for as equity method goodwill.

We had $61.1 million in equity method investments as of March 31, 2022 and reported $367 thousand of income resulting from this investment for the three months ended March 31, 2022 which represents our proportionate share of our investee's income.

Deposits.

Total deposits as of March 31, 2022 were $7.9 billion, an increase of $526.0 million, or 7.1%, compared to $7.4 billion as of December 31, 2021. The increase from December 31, 2021 was primarily the result of increases of $412.0 million in

interest-bearing transaction and savings deposits and $255.2 million in noninterest-bearing demand deposits partially offset by $141.2 million decrease in certificates and other time deposits.

Borrowings

We utilize short-term and long-term borrowings to supplement deposits to fund our lending and investment activities, each of which is discussed below.

FHLB Advances

The FHLB allows us to borrow on a blanket floating lien status collateralized by certain securities and loans. As of each of March 31, 2022 and December 31, 2021, total borrowing capacity of $787.9 million and $777.5 million, respectively, was available under this arrangement and $228.0 million and $227.8 million, respectively, was outstanding with a weighted average interest rate of 0.94% for the three months ended March 31, 2022 and for the year ended December 31, 2021. FHLB has also issued standby letters of credit to the Company for $777.5 million and $777.6 million as of each of March 31, 2022 and December 31, 2021, respectively. Our current FHLB advances mature within fifteen years. Other than FHLB borrowings, we had no other short-term borrowings at the dates indicated.

FRB

The FRB has an available borrower in custody arrangement, which allows us to borrow on a collateralized basis. Certain securities and commercial and consumer loans are pledged under this arrangement. We maintain this borrowing arrangement to meet liquidity needs pursuant to our contingency funding plan. As of March 31, 2022 and December 31, 2021, $995.1 million was available under this arrangement based on collateral values of pledged commercial and consumer loans. As of March 31, 2022 and December 31, 2021, no borrowings were outstanding under this arrangement.

Junior subordinated debentures and subordinated notes

The table below details our junior subordinated debentures and subordinated notes. Refer to Note 14 “Borrowed Funds” in our 2021 10-K for further discussion on the details of our junior subordinated debentures and subordinated notes.

	March 31, 2022	
	Balance	**Rate**
	(Dollars in thousands)	
Junior subordinated debentures		
Parkway National Capital Trust I	$ 3,093	2.03%
SovDallas Capital Trust I	8,609	4.24%
Patriot Bancshares Capital Trust I	5,155	2.09%
Patriot Bancshares Capital Trust II	17,011	1.98%
Subordinated notes		
4.75% Fixed-to-Floating Rate Subordinated Notes	75,000	4.75%
4.125% Fixed-to-Floating Rate Subordinated Notes	125,000	4.13%

Liquidity and Capital Resources

Liquidity

Liquidity management involves our ability to raise funds to support asset growth and acquisitions or reduce assets to meet deposit withdrawals and other payment obligations, to maintain reserve requirements and otherwise to operate on an ongoing basis and manage unexpected events. For the three months ended March 31, 2022 and the year ended December 31, 2021, our liquidity needs were primarily met by core deposits, wholesale borrowings, security and loan maturities and amortizing investment and loan portfolios. Use of brokered deposits, purchased funds from correspondent banks and overnight advances from the FHLB and the FRB are available and have been utilized to take advantage of the cost of these funding sources. We maintained five lines of credit with commercial banks that provide for extensions of credit with an availability to borrow up to an aggregate of $175.0 million as of March 31, 2022 and December 31, 2021. There were no advances under these lines of credit outstanding as of March 31, 2022 and December 31, 2021.

In addition, $18.5 million was available in conjunction with the Paycheck Protection Program Liquidity Program (“PPPLF”) which is a lending facility offered by the FRB to facilitate lending to small businesses under the PPP. As of March 31, 2022, we have not utilized the PPPLF.

The following table illustrates, during the periods presented, the mix of our funding sources and the average assets in which those funds are invested as a percentage of our average total assets for the period indicated. Average assets totaled $10.0 billion for the three months ended March 31, 2022 and $9.4 billion for the year ended December 31, 2021.

	For the Three Months Ended March 31, 2022	For the Year Ended December 31, 2021
Sources of Funds:		
Deposits:		
Noninterest-bearing	25.9 %	24.1 %
Interest-bearing	34.7	34.2
Certificates and other time deposits	15.0	16.5
Advances from FHLB	7.8	8.3
Other borrowings	2.3	2.8
Other liabilities	0.7	0.6
Stockholders’ equity	13.6	13.5
Total	100.0 %	100.0 %
Uses of Funds:		
Loans	72.7 %	73.2 %
Securities available-for-sale	11.3	12.0
Interest-bearing deposits in other banks	5.5	1.5
Other noninterest-earning assets	10.5	13.3
Total	100.0 %	100.0 %
Average noninterest-bearing deposits to average deposits	34.3 %	32.3 %
Average loans, excluding PPP and MW, to average deposits	90.9 %	89.9 %

Our primary source of funds is deposits, and our primary use of funds is loans. We do not expect a change in the primary source or use of our funds in the foreseeable future. Our average LHI increased 10.1% for the three months ended March 31, 2022 compared to the year ended December 31, 2021. We invest excess deposits in interest-bearing deposits at other banks, the Federal Reserve or liquid investments securities until these monies are needed to fund loan growth.

As of March 31, 2022, we had $4.0 billion in outstanding commitments to extend credit, $844.4 million in unconditionally cancellable MW commitments and $75.5 million in commitments associated with outstanding standby and commercial letters of credit. As of December 31, 2021, we had $3.8 billion in outstanding commitments to extend credit, $716.4 million in MW commitments and $65.9 million in commitments associated with outstanding standby and commercial letters of credit. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of March 31, 2022, we had cash and cash equivalents of $551.6 million compared to $379.8 million as of December 31, 2021.

Analysis of Cash Flows

	For the Three Months Ended March 31, 2022	For the Three Months Ended March 31, 2021
	(In thousands)	
Net cash provided by operating activities	$ 68,218	$ 83,220
Net cash used in investing activities	(564,784)	(228,307)
Net cash provided by financing activities	668,355	382,291
Net change in cash and cash equivalents	$ 171,789	$ 237,204

Cash Flows Provided by Operating Activities

For the three months ended March 31, 2022, net cash provided by operating activities decreased by $15.0 million when compared to the same period in 2021. The decrease in cash from operating activities was primarily related to the cash received for the termination of derivatives designated as hedging instruments of $43.9 million for three months ended March 31, 2021 and a increase in originations of loans held for sale of $11.5 million.

Cash Flows Used in Investing Activities

For the three months ended March 31, 2022, net cash used in investing activities increased by $336.5 million when compared to the same period in 2021. The increase in cash used in investing activities was primarily attributable to a $186.7 million increase in purchases of AFS debt securities and a $147.7 million increase in originations of net loans held for investment. This decrease was partially offset by a decrease of $6.2 million of maturities, calls and paydowns of AFS debt securities.

Cash Flows Provided by Financing Activities

For the three months ended March 31, 2022, net cash provided by financing activities increased by $286.1 million when compared to the same period in 2021. The increase in cash provided by financing activities was primarily attributable to a $134.2 million increase in deposits and a $153.9 million increase proceeds from our common stock offering completed during the three months ended March 31, 2022.

As of the three months ended March 31, 2022 and 2021, we had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

Capital Resources

Total stockholders' equity increased to $1.45 billion as of March 31, 2022, compared to $1.32 billion as of December 31, 2021, an increase of $132.9 million, or 10.1%. The increase from December 31, 2021 to March 31, 2022 was primarily the result of our $153.8 million common stock offering, $33.5 million of net income recognized during the three months ended March 31, 2022, a $3.3 million in stock-based compensation recognized during the three months ended March 31, 2022 and a $98 thousand increase due to the exercise of employee stock options. This increase was partially offset by $45.1 million in other comprehensive income and $9.9 million in dividends declared and paid during the three months ended March 31, 2022.

By comparison, total stockholders' equity increased to $1.23 billion as of March 31, 2021, compared to $1.20 billion as of December 31, 2020, an increase of $30.4 million, or 2.5%. The increase from December 31, 2020 to March 31, 2021 was primarily the result of $31.8 million of net income recognized, an increase of $6.2 million in other comprehensive income, a $2.9 million increase due to the exercise of employee stock options, and $2.5 million in stock-based compensation recognized during the three months ended March 31, 2021. This increase was partially offset by $4.1 million in stock buybacks and $8.4 million in dividends declared and paid during the three months ended March 31, 2021.

Capital management consists of providing equity to support our current and future operations. Our regulators view capital levels as important indicators of an institution's financial soundness. As a general matter, FDIC-insured depository institutions and their holding companies are required to maintain minimum capital relative to the amount and types of assets they hold. We are subject to regulatory capital requirements at the bank holding company and bank levels. See Note 12 – "Capital Requirements and Restrictions on Retained Earnings" in the notes to our consolidated financial statements for additional discussion regarding the regulatory capital requirements applicable to us and the Bank. As of March 31, 2022 and December 31, 2021, we and the Bank were in compliance with all applicable regulatory capital requirements, and the Bank was classified as "well capitalized" for purposes of the PCA regulations. As we employ our capital and continue to grow our operations, our regulatory capital levels may decrease depending on our level of earnings. However, we expect to monitor and control our growth in order to remain in compliance with all regulatory capital standards applicable to us.

On March 8, 2022, the Company completed an underwritten public offering of 3,947,369 shares of its common stock at $38.00 per share. On March 10, 2022, the representatives of the underwriters delivered to the Company a written notice of exercise by the underwriters of the underwriters' option to purchase an additional 367,105 shares of the Company's common stock at $38.00 per share, which subsequently closed on March 14, 2022. Net proceeds, after deducting underwriting discounts and offering expenses, of such offering were approximately $153.8 million. The Company intends to use the net proceeds from the Offering for general corporate purposes and to support its continued growth, including investments in Veritex Bank and future strategic acquisitions.

The following table presents the actual capital amounts and regulatory capital ratios for us and the Bank as of the dates indicated.

	As of March 31, 2022		As of December 31, 2021	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Veritex Holdings, Inc.				
Total capital (to risk-weighted assets)	$ 1,276,341	12.73 %	$ 1,100,404	11.60 %
Tier 1 capital (to risk-weighted assets)	1,016,916	10.14	843,585	8.89
Common equity tier 1 (to risk-weighted assets)	987,414	9.84	814,138	8.58
Tier 1 capital (to average assets)	1,016,916	10.66	843,585	9.05
Veritex Community Bank				
Total capital (to risk-weighted assets)	$ 1,245,323	12.42 %	$ 1,053,871	11.11 %
Tier 1 capital (to risk-weighted assets)	1,183,396	11.80	994,351	10.48
Common equity tier 1 (to risk-weighted assets)	1,183,396	11.80	994,351	10.48
Tier 1 capital (to average assets)	1,183,396	12.41	994,351	10.69

Contractual Obligations

In the ordinary course of the Company's operations, we have entered into contractual obligations and have made other commitments to make future payments. Other than normal changes in the ordinary course of business and changes discussed within "Financial Condition—Borrowings," there have been no significant changes in the types of contractual obligations or amounts due as of March 31, 2022 since December 31, 2021 as reported in our Annual Report on Form 10-K for the year ended December 31, 2021.

Impact of Inflation

Our consolidated financial statements and related notes included elsewhere herein have been prepared in accordance with GAAP. These require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative value of money over time due to inflation or recession.

Unlike many industrial companies, substantially all of our assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates may not necessarily move in the same direction or in the same magnitude as the prices of goods and services. However, other operating expenses do reflect general levels of inflation.

Critical Accounting Policies

Our accounting policies are fundamental to understanding our management's discussion and analysis of our results of operations and financial condition. We have identified certain significant accounting policies which involve a higher degree of judgment and complexity in making certain estimates and assumptions that affect amounts reported in our consolidated financial statements. The significant accounting policies which we believe to be the most critical in preparing our consolidated financial statements relate to allowance for credit losses, business combinations, debt securities and goodwill. Since December 31, 2021, there have been no changes in critical accounting policies as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in our Form 10-K for the year ended December 31, 2021, except for those updates discussed in Note 1 - Summary of Significant Accounting Policies in the accompanying notes to the consolidated financial statements included in this report.

Special Cautionary Notice Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on various facts and derived utilizing assumptions, current expectations, estimates and projections and are subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include, without limitation, statements relating to the expected payment date of our quarterly cash dividend, impact of certain changes in our accounting policies, standards and interpretations, the effects of the COVID-19 pandemic and actions taken in response thereto, our future financial performance, business and growth strategy, projected plans and objectives, as well as other projections based on macroeconomic and industry trends, which are inherently unreliable due to the multiple factors that impact broader economic and industry trends, and any such variations may be material. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans" and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts, although not all forward-looking statements include the foregoing words. You should understand that the following important factors could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

- risks related to the concentration of our business in Texas, and specifically within the Dallas-Fort Worth metroplex and the Houston metropolitan area, including risks associated with any downturn in the real estate sector and risks associated with a decline in the values of single family homes in the Dallas-Fort Worth metroplex and the Houston metropolitan area;
- uncertain market conditions and economic trends nationally, regionally and particularly in the Dallas-Fort Worth metroplex, Houston metropolitan area and Texas, including as a result of the COVID-19 pandemic;
- risks related to the impact of the COVID-19 pandemic on our business and operations;
- possible additional loan losses and impairment of the collectability of loans, particularly as a result of the COVID-19 pandemic and the programs implemented by the CARES Act, including its automatic loan forbearance provisions, and our PPP lending activities;
- the effects of regional or national civil unrest;
- changes in market interest rates that affect the pricing of our loans and deposits and our net interest income;
- risks related to our strategic focus on lending to small to medium-sized businesses;
- the sufficiency of the assumptions and estimates we make in establishing reserves for potential loan losses;
- our ability to implement our growth strategy, including identifying and consummating suitable acquisitions;
- our ability to recruit and retain successful bankers that meet our expectations in terms of customer relationships and profitability;
- changes in our accounting policies, standards and interpretations;
- our ability to retain executive officers and key employees and their customer and community relationships;
- risks associated with our CRE and construction loan portfolios, including the risks inherent in the valuation of the collateral securing such loans;
- risks associated with our commercial loan portfolio, including the risk of deterioration in value of the general business assets that generally secure such loans;
- our level of nonperforming assets and the costs associated with resolving problem loans, if any, and complying with government-imposed foreclosure moratoriums;
- potential changes in the prices, values and sales volumes of commercial and residential real estate securing our real estate loans;

- risks related to the significant amount of credit that we have extended to a limited number of borrowers and in a limited geographic area;
- our ability to maintain adequate liquidity (including in compliance with CBLR standards and the effect of the transition to the CECL methodology for allowances and related adjustments) and to raise necessary capital to fund our acquisition strategy and operations or to meet increased minimum regulatory capital levels;
- potential fluctuations in the market value and liquidity of our debt securities;
- the effects of competition from a wide variety of local, regional, national and other providers of financial, investment and insurance services;
- our ability to maintain an effective system of disclosure controls and procedures and internal control over financial reporting;
- risks associated with fraudulent and negligent acts by our customers, employees or vendors;
- our ability to keep pace with technological change or difficulties when implementing new technologies;
- risks associated with difficulties and/or terminations with third-party service providers and the services they provide;
- risks associated with unauthorized access, cyber-crime and other threats to data security;
- potential impairment on the goodwill we have recorded or may record in connection with business acquisitions;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, and economic stimulus programs;
- uncertainty regarding the future of LIBOR and any replacement alternatives on our business;
- governmental monetary and fiscal policies, including the policies of the Federal Reserve;
- our ability to comply with supervisory actions by federal and state banking agencies;
- changes in the scope and cost of FDIC, insurance and other coverage; and
- systemic risks associated with the soundness of other financial institutions.

Other factors not identified above, including those described under the headings “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our Annual Report on Form 10-K for the year ended December 31, 2021, as well as the information contained in this Quarterly Report on Form 10-Q, may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with considering any forward-looking statements that may be made by us. We undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our asset, liability and funds management policy provides management with the guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. We manage our sensitivity position within our established guidelines.

Fluctuations in interest rates will ultimately impact both the level of income and expense recorded on most of our assets and liabilities, and the market value of all interest-earning assets and interest-bearing liabilities, other than those which have a short term to maturity. Interest rate risk is the potential of economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk while at the same time maximizing income.

We manage our exposure to interest rates by structuring our balance sheet in the ordinary course of business. With exception of our cash flow hedges designated as a hedging instrument, we do not enter into instruments such as leveraged derivatives, interest rate swaps, financial options, financial future contracts or forward delivery contracts for the purpose of reducing interest rate risk. We enter into interest rate swaps, caps and collars as an accommodation to our customers in connection with our interest rate swap program. Based upon the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Our exposure to interest rate risk is managed by the Asset-Liability Committee of the Bank in accordance with policies approved by its board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital of the current outlook on interest rates, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk, which include an analysis of relationships between interest-earning assets and interest-bearing liabilities, and an interest rate shock simulation model.

We use an interest rate risk simulation model and shock analysis to test the interest rate sensitivity of net interest income and the balance sheet, respectively. Contractual maturities and repricing opportunities of loans are incorporated in the model as are prepayment assumptions, maturity data and call options within the investment portfolio.

We utilize static balance sheet rate shocks to estimate the potential impact on net interest income of changes in interest
rates under various rate scenarios. This analysis estimates a percentage of change in the metric from the stable rate base scenario versus alternative scenarios of rising and falling market interest rates by instantaneously shocking a static balance sheet. Internal policy regarding internal rate risk simulations currently specifies that for instantaneous parallel shifts of the yield curve, estimated net income at risk for the subsequent one-year period should not decline by more than 5.0% for a 100 basis point shift, 10.0% for a 200 basis point shift, and 15.0% for a 300 basis point shift.

The following table summarizes the simulated change in net interest income and fair value of equity over a 12-month horizon as of the dates indicated:

	As of March 31, 2022		As of December 31, 2021	
Change in Interest Rates (Basis Points)	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**	**Percent Change in Net Interest Income**	**Percent Change in Fair Value of Equity**
+ 300	23.48 %	11.78 %	20.31 %	15.79 %
+ 200	15.42 %	8.39 %	13.13 %	11.62 %
+ 100	7.39 %	4.51 %	6.60 %	6.64 %
Base	— %	— %	— %	— %
−100	(7.75)%	(6.70)%	(3.85)%	(11.68)%

The results are primarily due to behavior of demand, money market and savings deposits during such rate fluctuations. We have found that, historically, interest rates on these deposits change more slowly than changes in the discount and federal funds rates. This assumption is incorporated into the simulation model and is generally not fully reflected in a gap analysis. The assumptions incorporated into the model are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various strategies.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures — As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) were effective as of the end of the period covered by this Report. In making this determination, our management, with the supervision and participation of our Chief Executive Officer and Chief Financial Officer, considered a reportable event on a Current Report on Form 8-K that occurred during the period covered by this report, which was untimely but eventually filed with the SEC one day late due to an oversight, and which management believes does not change the effectiveness of our disclosure controls as of the end of the period covered by this report.

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition law, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

At this time, in the opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on our consolidated results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor.

Item 1A. Risk Factors

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021, as well as the information contained in this Quarterly Report on Form 10-Q and our other reports and registration statements filed with the SEC.

There has been no material change in the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description of Exhibit
2.3	Agreement and Plan of Reorganization dated July 23, 2018, by and among Veritex Holdings, Inc., MustMS, Inc. and Green Bancorp, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed July 24, 2018).
3.2	Third Amended and Restated Bylaws of Veritex Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed July 25, 2017).
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from Veritex Holdings, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, formatted in Inline XBRL (Inline eXtensible Business Reporting Language): (i) Cover Page, (ii) Consolidated Balance Sheets, (iii) Consolidated Statements of Income, (iv) Consolidated Statements of Comprehensive Income, (v) Consolidated Statements of Changes in Stockholders' Equity, (vi) Consolidated Statements of Cash Flows, and (vii) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed with this Quarterly Report on Form 10-Q
** Furnished with this Quarterly Report on Form 10-Q

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VERITEX HOLDINGS, INC.
(Registrant)

Date: May 9, 2022

/s/ C. Malcolm Holland, III
C. Malcolm Holland, III
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: May 9, 2022

/s/ Terry S. Earley
Terry S. Earley
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

CERTIFICATION

I, C. Malcolm Holland, III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Veritex Holdings, Inc. for the quarter ended March 31, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 9, 2022

/S/ C. Malcolm Holland, III
C. Malcolm Holland, III
Chairman of the Board & Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Terry S. Earley, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Veritex Holdings, Inc. for the quarter ended March 31, 2022;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2022

/S/ Terry S. Earley
Terry S. Earley
Chief Financial Officer

Exhibit 32.1

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Veritex Holdings, Inc. (the "Company") for the quarter ended March 31, 2022 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, C. Malcolm Holland, III, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Malcolm Holland, III
C. Malcolm Holland, III
Chairman of the Board & Chief Executive Officer
Date: May 9, 2022

Exhibit 32.2

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Veritex Holdings, Inc. (the “Company”) for the quarter ended March 31, 2022 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, I, Terry S. Earley, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ Terry S. Earley
Terry S. Earley
Chief Financial Officer
Date: May 9, 2022