



R. Christopher Whalen · Dec 31, 1969 · 6 min read

Profile: NexBank Capital, Inc.

February 10, 2022 | In this issue of *The Institutional Risk Analyst*, we look at **NexBank Capital, Inc.** and its subsidiary bank, **NexBank**. With total assets of just below \$10 billion, NexBank is the fourth largest commercial bank in Dallas and consistently ranks among the top banks in Peer Group 2 for equity returns and capital growth, operating efficiency, and asset quality. NexBank has two banking offices in Dallas, TX, and is institutionally focused, leveraging a very efficient operating model. It has three divisions—Institutional Banking, Commercial Banking, and Mortgage Banking. The following data and analysis are as of September 30, 2021, using data from the FFIEC and S&P Global, unless otherwise noted.

Name	RSSD ID	City	State/ Country	Institution Type	Status
NEXBANK	652874	DALLAS	TX	Non-member Bank	Active
NEXBANK CAPITAL TRUST	4317340	DALLAS	TX	Domestic Entity Other	Active
NEXBANK CAPITAL, INC.	3823844	DALLAS	TX	Financial Holding Company - Domestic	Active
NEXBANK LAND ADVISORS, INC.	4321338	DALLAS	TX	Domestic Entity Other	Active
NEXBANK SECURITIES, INC.	4459811	DALLAS	TX	Securities Broker/Dealer	Active
NEXBANK TITLE, INC.	5116102	DALLAS	TX	Domestic Entity Other	Active

Source: FFIEC

NexBank's earliest predecessor institution, **Terrell Building and Loan Association**, was chartered in 1922. Today NexBank is a state chartered, FDIC-insured subsidiary of NexBank Capital, Inc., a single bank holding company that was organized by a group of private investors in 2004 and today includes a single depository and a broker-dealer. The company's growth has primarily been organic. In terms of recent M&A transactions, NexBank acquired **College Savings Bank**, a state savings bank based in NJ, in December of 2015.

We wrote about NexBank back in 2017 ("Which Are the Best Performing US Banks?") when we looked at some of the top-performing banks, large and small, in the US. Since that time, the total assets of the US banking system have risen dramatically due to the inflationary policies of the Federal Reserve Board. This fact puts growing pressure on NexBank and the larger members of the 144 depository institutions in Peer Group 2, which includes banks between \$1 billion and \$10 billion, to take the decision to go above \$10 billion in total assets.

NBC is focused on providing financial and banking services to institutional clients, financial institutions and corporations. Its primary subsidiary, NexBank, a commercial bank, core offerings consist of the following:

- **Institutional Banking** offers a suite of specialized lending and depository services to institutional clients and financial institutions.
- **Commercial Banking** offers a range of traditional banking products with a focus on real estate lending and commercial and industrial financing, as well as deposit and cash management services.
- **Mortgage Banking** provides conforming, government, non-conforming jumbo, and non-QM through wholesale and correspondent channels as well as traditional warehouse lines of credit. The group also offers MSR and EBO Financing.

NexBank's diversified \$5.6 billion gross loan portfolio has concentrations in residential mortgage loans and commercial real estate loans. The 1-4 family residential loans are originated through both the wholesale and correspondent channels as well as through warehouse facilities for large mortgage bankers. Commercial lending largely consists of commercial real estate lending with focus on multifamily, followed by commercial and industrial loans.

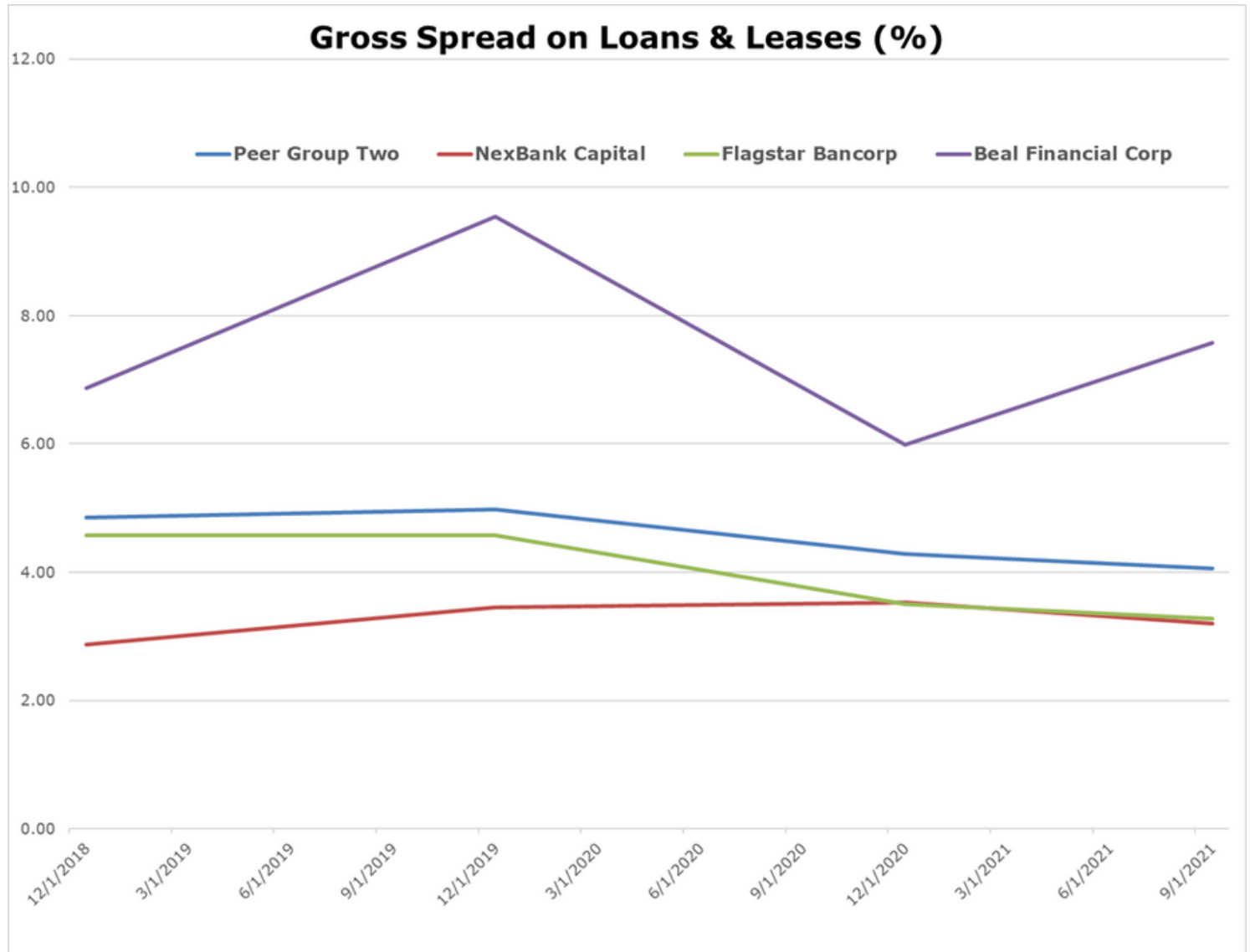
NBC is not structured and managed like a typical large community bank, thus peer comparisons must be made carefully. The business includes a strong focus on mortgage specialization in terms of acquiring and managing a portfolio of housing assets and related revenue lines. Among the ten largest mortgage specialization banks, NexBank had among the best equity returns in Q3 2021. Note in the table below that the lead bank of **Charles Schwab Corp (SCHW)** is the largest mortgage specialization bank in the US.

NAME	ASSET	ROA %	ROE %
CHARLES SCHWAB BANK 3000 SCHWAB WAY WESTLAKE, TX	\$379,309,000	0.68%	9.83%
FIRSTBANK 10403 W. COLFAX AVE. LAKEWOOD, CO	\$27,322,732	1.26%	17.83%
BANK OF HAWAII 111 S. KING ST. HONOLULU, HI	\$22,935,641	1.16%	18.51%
THIRD FEDERAL SAVINGS AND LOAN 7007 BROADWAY AVE. CLEVELAND, OH	\$14,041,790	0.52%	5.22%
AMERIPRISE BANK, FSB 707 2ND AVE. S. MINNEAPOLIS, MN	\$10,802,268	0.67%	8.67%
DOLLAR BANK, FEDERAL SAVINGS BANK 340 4TH AVE PITTSBURGH, PA	\$10,233,359	0.46%	4.43%
NEXBANK 2515 MCKINNEY AVE, # 1100 DALLAS, TX	\$9,751,339	1.34%	18.25%
CAPITOL FEDERAL SAVINGS BANK 700 S KANSAS AVE TOPEKA, KS	\$9,651,994	0.79%	6.71%
AMERICAN SAVINGS BANK, FSB 300 N. BERETANIA ST. HONOLULU, HI	\$9,010,419	1.20%	14.41%
CENTURY BANK AND TRUST COMPANY 102 FELLSWAY W SOMERVILLE, MA	\$7,112,322	0.65%	11.12%

Source: FFIEC Assets in \$000s.

For the full year 2021, NexBank had a return on average equity of 17.68%, according to *S&P Global*.

Most of the economic capital risk in NexBank, as a result, comes from the securities portfolio rather than lending. Note in the chart below that the gross spread on NexBank's portfolio of largely purchased loans and leases exhibits far less volatility than some of its higher-risk asset peers. As discussed below, the bank's superior operating efficiency means that NBC is able to manage a lower risk franchise.



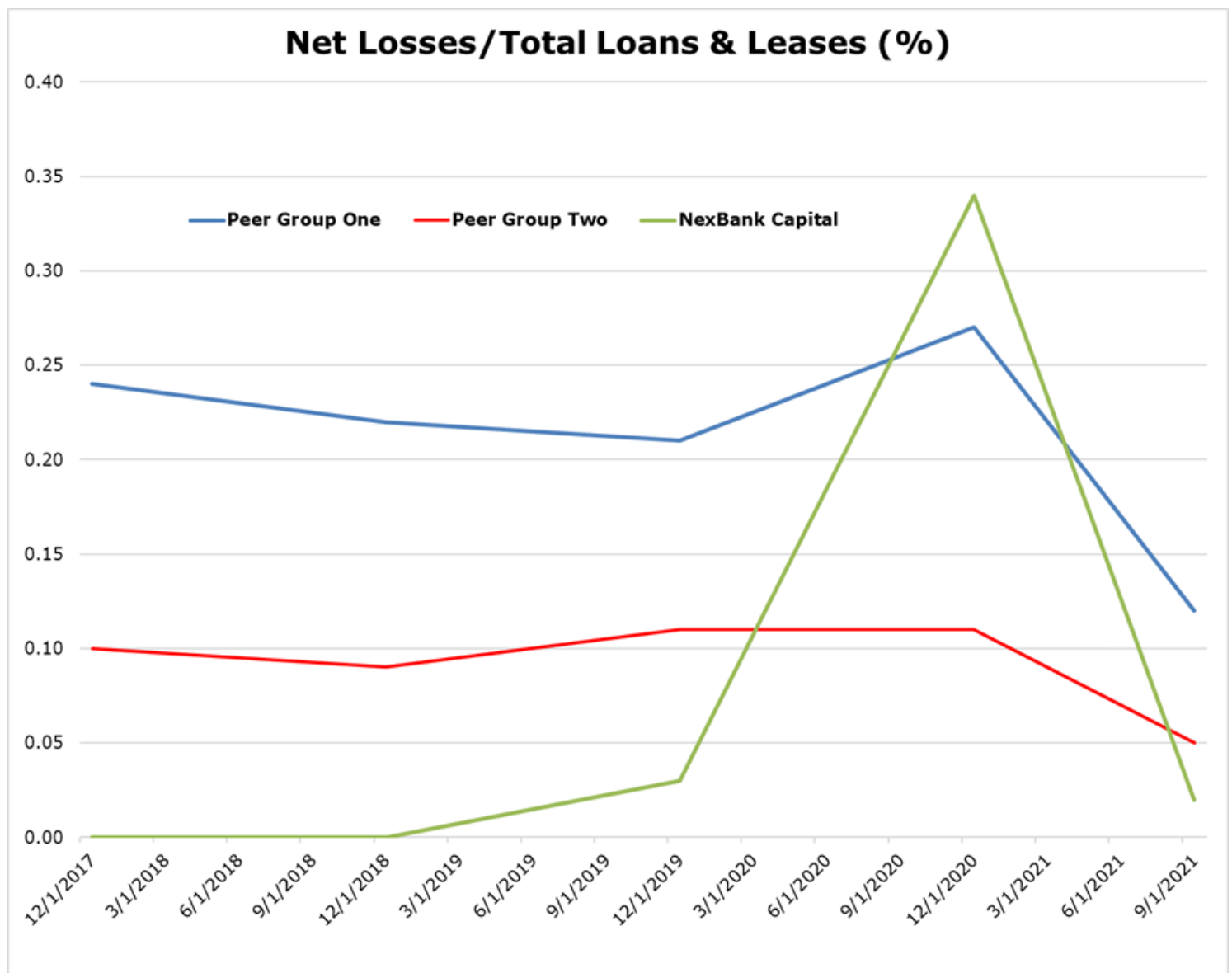
Source: FFIEC

Using nominal measures looking at average assets NexBank underperforms some of its more complex asset peers such as **Cross River Bank** and **Beal Bank**, yet in Q3 2021 the bank delivered a 6% Risk Adjusted Return on Economic Capital (RAROC), according to *Total Bank Solutions*.

Look at average assets vs operating income, for example, and NBC is in the bottom third of Peer Group 1. But look at equity returns and capital growth rates, on the other hand, and NBC is in the top 5% of the 150 institutions in Peer Group 2.

In Q3 2021, for example, NBC earned a 21.4% equity return on its investments in NexBank and the broker-dealer unit. Among mortgage specialization institutions below \$100 billion, NexBank is one of the best performers. In Q3 2021, NexBank delivered a 18.25% ROE and a 1.3% return on assets (ROA), according to data from the FDIC.

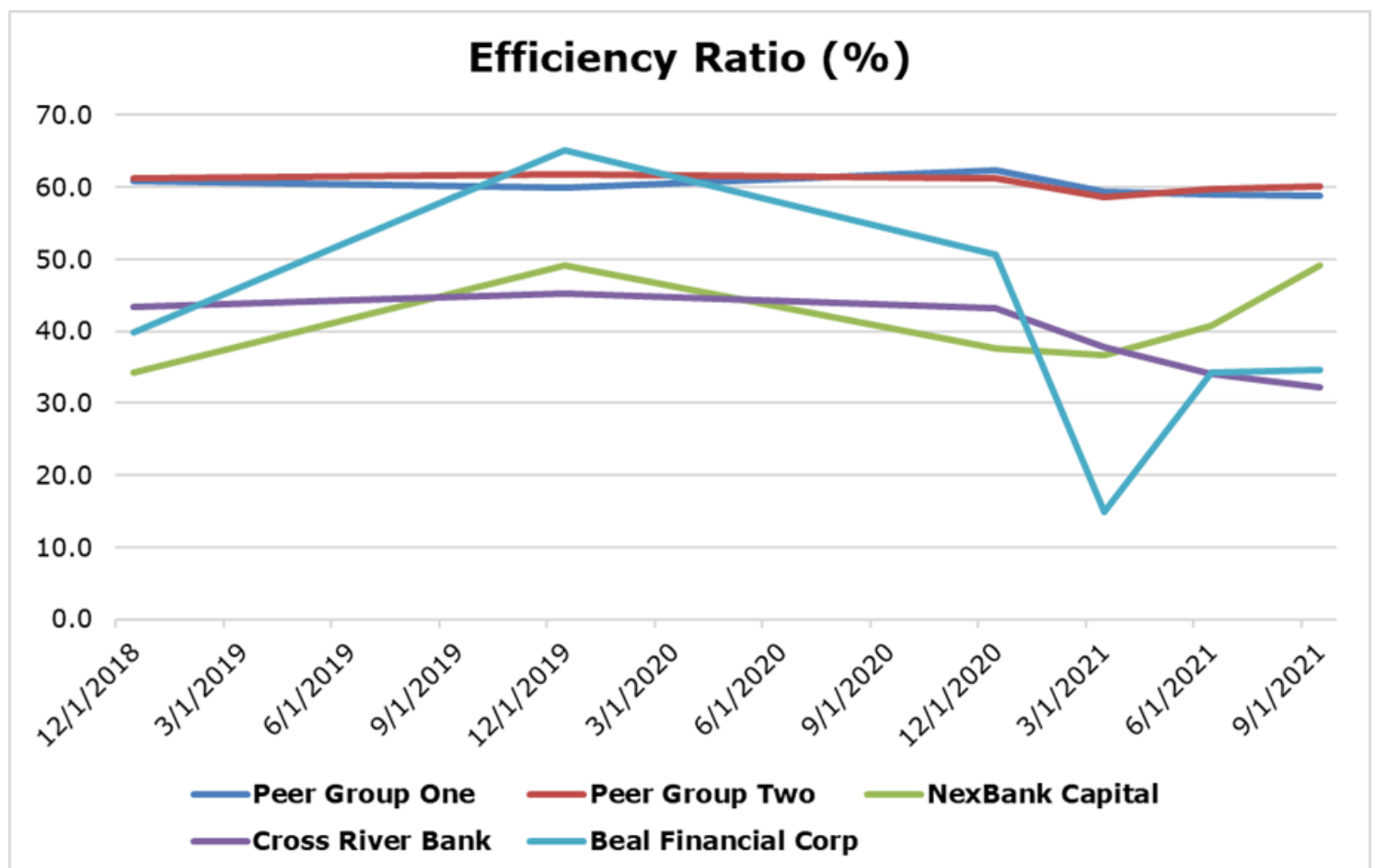
One reason for the strong equity returns of NBC is the bank's stellar credit performance, in some quarters with zero net loan losses. With the exception of 2020, when NexBank saw losses rise above the Peer Group 2 average due to one charge-off on a large syndicated credit with COVID exposure, the bank has tracked well-below its peers in terms of credit performance. Likewise, Loss Given Default was negative or near zero historically, but rose to near 100% in 2020 due to credit expenses arising from the response to COVID.



Source: FFIEC

The strong historical performance of NexBank enables it to operate with lower allowance for loan & lease losses (ALLL) and lower levels of capital compared with the Peer Group 2 average. For example, in terms of exposure at default (EAD), NexBank carries unused credit commitments equal to just 10% of loans and leases compared with 100% or more for larger banks. More, with risk weighted assets (RWA) of just \$6.2 billion (or 64% of total assets) at September 30, 2021, NexBank had Tier 1 capital to RWA of almost 14%.

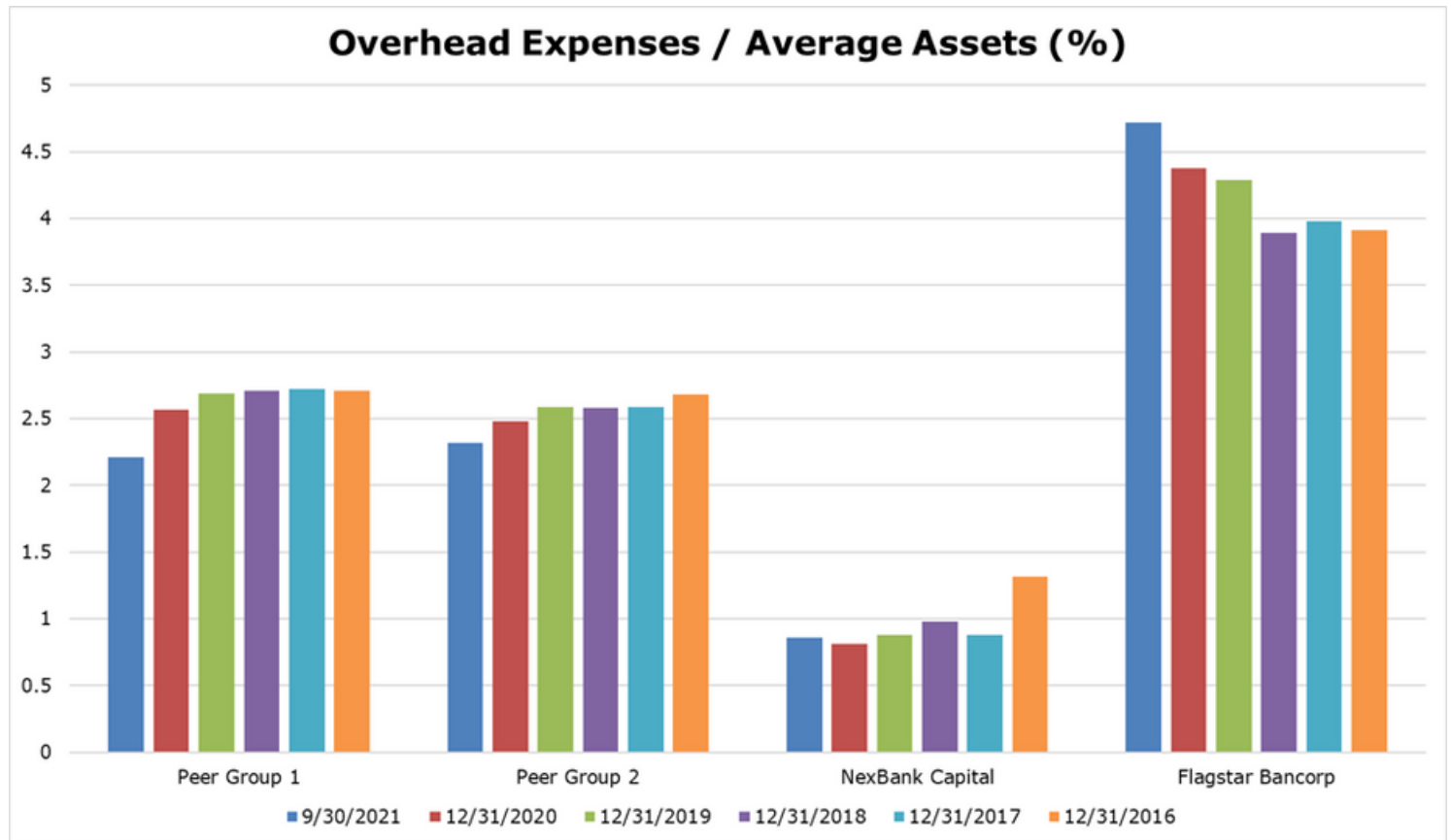
Operating efficiency is another notable area where NBC and its bank unit excel, both compared to its asset peers and larger banks. NBC has tracked below the average level of efficiency in Peer Groups 1 and 2 for many years.



Source: FFIEC

Due to the strong efficiency and high levels of equity returns, NBC has been able to build the capital of NexBank to a far greater degree and in less time than its asset peers. The level of debt at NBC is above peer due to the high levels of double leverage used to downstream equity capital to NexBank.

An important sub-component of bank operating efficiency is non-interest or overhead expense, another area where NBC excels compared with its peers and industry leaders such as FBC. NBC's ratio of overhead expenses vs average assets is the lowest in Peer Group 1 or 2 at 0.8% vs the Peer Group 2 average of 2.32%. In operating as well as credit terms, the bank's superior operating efficiency means that NBC is able to manage to a lower risk business profile than its peers.



Source: FFIEC

At the end of Q3 2021, NBC had 131% double leverage vs 105% on average for Peer Group 1, but NBC retained over \$400 million in earnings during that period. Total capital inclusive of \$240 million in Tier 2 capital was \$950 million for NBC.

Going back to the creation of NexBank in 2004, the goal was always building shareholder equity on a conservative business foundation. As a result of declaring modest dividends at the parent level, NexBank has seen 150% growth in retained earnings over the past five years. Total holding company equity capital was \$580 million at the end of Q3 2021. NexBank reported over \$700 million in Tier 1 capital at the end of Q3 2021.

NexBank maintains a highly liquid balance sheet and employs a sophisticated strategy to manage interest rate risk. Net loans and leases as a percentage of total deposits are below the average for Peer Group 2, reflecting the bank's focus on investing in mortgage loans and related securities and assets, such as mortgage servicing rights.

In stark comparison to more aggressive asset peers such as Cross River and Beal Bank, NexBank has steadily decreased its reliance upon noncore funding as its capital base has expanded. Roughly half of Beal Bank's \$8.1 billion balance sheet, for example, is funded with volatile sources of funds. Cross River Bank, likewise, has half of its \$11.5 billion in assets funded with volatile funding sources. NexBank's core deposits equaled 99.4% of total deposits and volatile funding sources equaled less than 5% of total funding at Q3 2021.

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