TEXAS CAPITAL BANCSHARES, INC.
2000 McKinney Avenue, Suite 700
Dallas, Texas 75201

March 6, 2009

By FedEx and Email
(SIGTARP.response@do.treas.gov)

Mr. Neil M. Barofsky
Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Avenue, NW, Suite 1064
Washington, D.C. 20220

Re: Texas Capital Bancshares, Inc. ("TCBI" or the "Company") information regarding participation in the Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP")

Dear Mr. Barofsky:

On behalf of TCBI, I hereby submit this letter and the accompanying information in response to your correspondence dated February 6, 2009, regarding TCBI's participation in the CPP and certain matters related thereto. On January 16, 2009, TCBI issued 75,000 shares of preferred stock, liquidation value $1,000 per share, and warrants to acquire 758,086 shares of common stock of TCBI to the U.S. Department of Treasury ("Treasury") for aggregate consideration $75 million in cash. We welcome the opportunity to respond to your questions regarding the use of the funds that TCBI received from Treasury from the sale of the CPP preferred stock. By way of background, and in order to help you better understand TCBI, we would like to share with you some background information about TCBI.[1]

- TCBI is the parent company of Texas Capital Bank, National Association, (the "Bank"), headquartered in Dallas, Texas, with banking offices in Dallas, Houston, San Antonio, Austin, and Fort Worth, the state's five largest metropolitan areas.

- TCBI is a relatively new banking organization, completing its 10th year of operations in December 2008. Throughout its history, the Bank has been aggressive in anticipating its capital needs. The initial capitalization of the Bank was $85 million, which was the largest capital raise for a new bank in U.S. history. Subsequently, TCBI raised $40 million of stockholders' equity, in 2003, and the Company's initial public offering, in 2003, provided it with an additional $35 million of common equity. In September 2008, before the CPP was announced, TCBI completed another $55 million offering of

[1] For additional information, including all of the Company's filings with the Securities and Exchange Commission (the "SEC"), please refer to the Company's website at http://www.texascapitalbank.com.

common equity. At year-end 2008 (on a pro forma basis, including the $75 million of CPP funds), TCBI had a ratio of tangible equity to tangible assets equal to 8.73%, and a ratio of Tier 1 capital (including $110 million of trust preferred securities) to risk weighted assets of 11.51%. The Bank has grown substantially in both size and profitability since its formation. As of December 31, 2008, the Bank's total assets were $5.1 billion. Since 1998, the Company's growth has been almost completely organic; the Company has acquired no other banks.

- The Bank is primarily a commercial bank that serves middle market businesses and private client customers in the five major Texas markets: Austin, Dallas, Fort Worth, Houston and San Antonio. In addition, the Bank engages in certain lending activities on a broader geographic basis. One example is the Bank's mortgage warehouse group that provides short term loans to facilitate the funding of single family residential mortgages. As of December 31, 2008, mortgage warehouse loans represented $496 million (11%) of the Bank's total loan portfolio.

- During 2008 and for each of the previous five years, the Bank had consecutive years of loan growth in excess of 20% per year. At the same time, the Bank has been able to maintain low levels of non-performing assets and net charge-offs because the Bank is primarily a secured lender and places a strong emphasis on prudent underwriting and lending practices. As a result of excellent growth and maintenance of sound credit quality, TCBI reported pre-tax income of $37.8 million, recorded a liability for federal income taxes of $12.9 million and achieved its thirty-sixth consecutive profitable quarter during the 4th quarter of 2008. Detailed information related to the TCBI's business, audited financial condition and operating results are incorporated by reference to the Annual Report on Form 10-K filed with the SEC on February 19, 2009.

- As indicated above, in September 2008, TCBI raised $55 million through a private offering of TCBI common stock to institutional investors. Although at the time of the offering TCBI and the Bank both had capital levels in excess of the well-capitalized standard, TCBI raised this additional capital to provide an added measure of protection from economic uncertainty (such as the unavailability of capital in the capital markets over an extended period of time) and to further support the Bank's lending activities during 2009 and beyond.

- In November 2008, with the recommendation of management, the Board of Directors approved the Company's decision to participate in the CPP. The Company filed an application to sell up to $130 million of perpetual preferred stock to the Treasury, an amount representing just under the maximum amount of capital for which the Company was eligible, 3% of its risk-weighted assets as of September 30, 2008. After receiving preliminary approval from the Treasury in December, and after conducting an in-depth review of the Bank's ability to utilize the CPP funds in a productive and prudent manner and considering the $55 million in capital that had been raised earlier, TCBI determined to accept $75 million from Treasury, representing the difference between the $130 million applied for and the $55 million in capital that the Company raised in September. The decision to participate in the CPP and accept $75 million was made for reasons consistent with those associated with the $55 million offering completed in September — to guard against uncertainty in the capital and financial markets and to support the Bank's lending activities. The ability of the Company to maintain strong capital ratios, which in turn supports our willingness to meet our customers' credit and other needs, was our primary objective for applying for CPP funds. In light of the continuing deterioration in the U.S. economy and the growing signs of weakness in the Texas economy, we feel that applying for and receiving CPP funds was the correct decision. Funding of the investment in the Company by Treasury occurred on January 16, 2009.

<u>Use of CPP Funds</u>

Anticipated Use of CPP Funds

Although TCBI and the Bank reserve the right to use the CPP funds for any number of permissible purposes, as discussed below,[2] TCBI and the Bank have no immediate plans to utilize CPP funds for activities other than to support the Bank's lending activities (as discussed above). TCBI and the Bank principally view the CPP funds as a means to strengthen the Bank's capital base, which enables the Bank to expand its lending activities.

During 2009, the Bank anticipates that it will continue to increase its outstanding loans, primarily to commercial borrowers, and will continue to facilitate residential mortgage lending through the mortgage warehouse division as long as all such loans are consistent with the Bank's credit standards. During the first two months of 2009, the Bank actively loaned funds to individual customers and facilitated the financing of approximately 13,000 residential mortgage loans totaling $2.5 billion, with an average loan balance of less than $200,000. More than 95% of the dollar volume of loans were conforming, conventional mortgage loans.[3] Following funding of the CPP, loans originated to support mortgage lending have increased substantially, with outstanding balances increasing by $191 million, from $496 million at year-end 2008 to $688 million at February 28, 2009.

2 TCBI and the Bank anticipate that the CPP funds may be used, and they reserve the right to use the CPP funds, to support or engage in any permissible banking activity, including, but not limited to, lending, operating and strengthening the Bank's capital position. TCBI and the Bank also may use CPP funds to expand consumer and commercial products and lines of business, to grow and expand the Bank's operations and/or geographic presence (through acquisitions or through organic expansion), to make capital investments, and to make other long-term and short-term permissible investments.

3 The Bank makes conforming conventional mortgage loans and, on a case-by-case basis, jumbo loans, that must be eligible for purchase under one or more programs established by Government National Mortgage Association, Federal National Mortgage Association, and/or Federal Home Loan Mortgage Corporation; in the case of jumbo loans, loans are sold pursuant to pre-committed programs from qualified investors.

Segregation of CPP Funds

The Bank has not segregated and does not plan to segregate the CPP funds. However, TCBI maintains all liquid assets, including the proceeds of the CPP, at the Bank in the form of non-interesting bearing demand deposits. Currently the total of amount liquid assets that TCBI maintains at the Bank is well in excess of $75 million.

Actual Use of CPP Funds

Because the CPP is being held in the Bank as non-interest bearing deposits, the CPP funds are being used directly to support the Bank's lending activities, including those of the Bank's mortgage warehouse lending division. Since December 2008, the Bank's level of mortgage warehouse lending has increased by approximately $191 million, an amount significantly in excess of the CPP proceeds. Deposits of over $75 million held by TCBI at the Bank remain available to meet the Bank's capital needs. Consistent with past practices, TCBI will contribute cash as capital to the Bank on an as-needed basis, to ensure that the capital position at the Bank is maintained in amounts in excess of well-capitalized levels, as defined by the Office of the Comptroller of the Currency, the Bank's principal regulator.

Executive Compensation Matters

Plans for Addressing Executive Compensation Requirements of the Emergency Economic Stabilization Act of 2008 (the "EESA"), as amended by the American Recovery and Reinvestment Act of 2009

Agreements with Senior Executive Officers (the "SEOs")

TCBI and the SEOs who, at the time of the CPP transaction we believed were most likely to be the SEOs who would be subject to the EESA executive compensation requirements under applicable guidance, George Jones, Jr., President and Chief Executive Officer ("CEO"), Peter B. Bartholow, Chief Financial Officer ("CFO"), Keith Cargill, President of the Bank, [redacted] President of the Bank's Dallas Region, and [redacted], Chief Credit Policy Officer, entered into new employment arrangements prior to TCBI closing the CPP transaction with Treasury. The new employment agreements with TCBI incorporate all provisions required under TARP, and these SEOs also provided the waivers required to be delivered in connection with the closing of the CPP transaction.[4]

[4] Copies of the new agreements with Messrs. Jones, Bartholow and Cargill were filed as attachments to a current report on Form 8-K filed with the SEC on January 6, 2009. Except for salary, job title and restricted stock grants, the new agreements for Messrs. [redacted] are similar in all substantive respects as the agreements with Messrs. Jones, Bartholow and Cargill.

Based on total compensation earned in 2008, the Bank's chairman emeritus, Joseph M. (Jody) Grant, will be included among the five most-highly compensated employee of the TCBI combined companies, and therefore will be one of the SEOs for purposes of the EESA executive compensation restrictions for 2009. Mr. Grant

Human Resources Committee; Compliance with EESA Executive Compensation Restrictions and Requirements

The Human Resources Committee of TCBI's Board of Directors (the "HRC") is comprised of four directors, each of whom is independent of TCBI's and the Bank's management. On March 6, 2009, the HRC and appropriate senior risk officers, together with legal counsel, met to review the current executive compensation arrangements with the SEOs and the other highly-compensated employees to ensure that such arrangements are in line with EESA rules and regulations and to ensure that the compensation arrangements do not encourage such officers or employees to take unnecessary and excessive risks that threaten TCBI's value. In light of the HRC's review, the HRC will provide the certifications required by the EESA (as amended by the ARRA) prior to the expiration of the applicable deadlines. TCBI's CEO also will submit the required certifications to the TARP Chief Compliance Officer at Treasury. On a going-forward basis, the HRC and the senior risk officers will be responsible for monitoring compliance with the EESA's executive compensation restrictions, and compliance-related tasks will be included on agendas for conferences, formal meetings, discussions with consultants and interactions with management throughout the course of each fiscal year.

In addition to the foregoing review, the HRC has directed the Company's SEOs not to engage in any activities impacting or relating to their compensation that could be detrimental to the value of the Company or that otherwise could violate the executive compensation restrictions applicable to the Company. The HRC also has directed the Company's CEO, the CFO and the Chief Credit Policy Officer, who also serves as Chair of the Risk Management Committee responsible to TCBI's Audit Committee, to report any conditions that could represent excessive risk having an effect on incentive compensation directly to the HRC and the Audit Committee. Failure to comply with this directive could result in the dismissal of any SEO involved.

For detailed information related to the Company's incentive compensation programs, see the Compensation Discussion & Analysis ("CD&A") section of TCBI's proxy statement for the annual meeting of stockholders held in May of 2008. Except as required by the EESA, the compensation practices to be described the CD&A for the 2009 proxy statement to be filed with the SEC later this month will be substantially the same as those described in the 2008 CD&A. In addition, the Company will submit the "say-on-pay" provision for consideration by stockholders at the Company's 2009 annual meeting. The Company will submit the proposed proxy statement for the 2009 annual meeting to the SEC for review on or about March 30, 2009.

Although a significant portion of compensation for our SEOs and other highly-compensated employees is incentive-based, the HRC and the senior risk officers are confident in the integrity of the present incentive compensation process (as described in the CD&A) and

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remains party to an employment agreement with TCBI dated as of April 8, 2008, which agreement has not been modified since that date because it was not anticipated at the time of the CPP closing that he would be an SEO for purposes of TARP. A copy of Mr. Grant's employment agreement is available upon request.

believe that the comprehensive structure of the process serves to mitigate risks to TCBI's value and in fact encourages officers and employees to carry out their responsibilities in a manner that enhances value and preserves the safety and soundness of the consolidated companies. In addition, TCBI's SEOs and most other key managers have received restricted stock units with long-term or cliff vesting schedules, thereby directly linking total compensation to value realized by the Company's shareholders. Furthermore, any action that could violate the directions of the HRC or that could impair the value of TCBI as a consolidated entity could result in the forfeiture of a meaningful amount of compensation, which further serves to discourage abuse or overly risky behavior by any particular SEO.

(b) (4) [redacted]

Due to the comprehensive structure of our incentive compensation process, the Company does not view itself as the type of institution that is likely to be subject to the risks that Section 111 of the EESA is designed to address. As with many other profitable and conservatively managed institutions, the Company applied for and accepted CPP money to enhance our lending operations and guard against economic uncertainty, not because we are in a troubled condition or otherwise needed the additional capital. (b) (4) [redacted]

<u>No Plans to Offset</u>

The Company already uses a form of deferred compensation, restricted stock units that vest over time, as part of its compensation mix. The HRC is in the process of evaluating the full effect that the new requirements will have on the overall compensation along with the potential impact on the Company's competitive position and profitability. The HRC has made no determination with respect offsetting through deferred compensation the amount of any incentive or other compensation that may be reduced by virtue of the CPP executive compensation limitations.

I hereby certify that I am the Chief Financial Officer of TCBI and that I am duly authorized to submit the information set forth herein. I further certify that the representations and statements contained herein and in the supporting information provided herewith are accurate, and I acknowledge that such representations, statements and supporting information are subject to the requirements and penalties set forth in 18 U.S.C. § 1001.

If you require further information about TCBI's participation in the CPP, please contact me at [redacted] or my colleague, [redacted]

Very truly yours,

Peter B. Bartholow
Chief Financial Officer
Texas Capital Bancshares, Inc.

cc: [redacted]
Texas Capital Bank, N.A. (via e-mail)

[redacted]
Bracewell & Giuliani LLP (via e-mail)