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Equity Securities - For public common and preferred equity stocks, the determination of fair value uses Level 1 inputs based on observable market transactions.

Loans Held for Sale — Mortgage loans held for sale are reported at fair value, as discussed above, using Level 2 inputs that consist of commitments on hand from investors or prevailing market prices. These instruments are held for relatively short periods, typically no more than 30 days. As a result, changes in instrument-specific credit risk are not a significant component of the change in fair value. The fair value of certain loans held for sale that cannot be sold through normal sale channels or are non-performing is measured using Level 3, or unobservable, inputs. The fair value of such loans is generally based upon estimates of expected cash flows using unobservable inputs, including listing prices of comparable assets, uncorroborated expert opinions, and/or management's knowledge of underlying collateral.

Derivatives — Derivatives, which are included in other assets and liabilities within the Company's consolidated balance sheets, are reported at fair value using either Level 2 or Level 3 inputs. The Bank uses dealer quotes to value interest rate swaps, forward purchase commitments and forward sale commitments executed for both hedging and non-hedging purposes. PrimeLending and the Hilltop Broker-Dealers use dealer quotes to value forward purchase commitments and forward sale commitments, respectively, executed for both hedging and non-hedging purposes. PrimeLending also issues IRLCs to its customers and the Hilltop Broker-Dealers issue forward purchase commitments to its clients that are valued based on the change in the fair value of the underlying mortgage loan from inception of the IRLC or purchase commitment to the balance sheet date, adjusted for projected loan closing rates. PrimeLending determines the value of the underlying mortgage loan as discussed in "Loans Held for Sale", above. The Hilltop Broker-Dealers determine the value of the underlying mortgage loan from prices of comparable securities used to value forward sale commitments. Additionally, PrimeLending also uses dealer quotes to value Eurodollar futures and U.S. Treasury bond futures and options used to hedge interest rate risk, and the Hilltop Broker-Dealers use dealer quotes to value Eurodollar futures and U.S. Treasury bond futures and options used to hedge changes in the fair value of securities.

MSR Asset — The MSR asset is reported at fair value using Level 3 inputs. The MSR asset is valued by projecting net servicing cash flows, which are then discounted to estimate the fair value. The fair value of the MSR asset is impacted by a variety of factors. Prepayment rates and discount rates, the most significant unobservable inputs, are discussed further in Note 12 to the consolidated financial statements. The increase in the weighted average discount rate used to value the MSR asset at December 31, 2020, compared to December 31, 2019, addresses the effect of the reduction in third-party servicing outlets beginning in the second quarter of 2020 resulting from the impact of the Coronavirus Aid Relief, and Economic Security Act ("CARES Act"). The CARES Act permits borrowers of federally-backed mortgage loans to forbear payments, which could negatively impact servicers' liquidity and their ability to purchase servicing.

Securities Sold, Not Yet Purchased — Securities sold, not yet purchased are reported at fair value primarily using either Level 1 or Level 2 inputs in the same manner as discussed above for trading and available for sale securities.

The following tables present information regarding financial assets and liabilities measured at fair value on a recurring basis (in thousands).

December 31, 2020	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading securities	$ 45,390	$ 648,865	$ —	$ 694,255
Available for sale securities	—	1,462,205	—	1,462,205
Equity securities	140	—	—	140
Loans held for sale	—	2,449,588	71,816	2,521,404
Derivative assets	—	126,898	—	126,898
MSR asset	—	—	143,742	143,742
Securities sold, not yet purchased	54,494	25,295	—	79,789
Derivative liabilities	—	74,598	—	74,598

December 31, 2019	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Trading securities	$ —	$ 689,576	$ —	$ 689,576
Available for sale securities	—	911,493	—	911,493
Equity securities	166	—	—	166
Loans held for sale	—	1,868,518	67,195	1,935,713
Derivative assets	—	33,129	—	33,129
MSR asset	—	—	55,504	55,504
Securities sold, not yet purchased	29,080	14,737	—	43,817
Derivative liabilities	—	17,140	—	17,140

The following table includes a rollforward for those financial instruments measured at fair value using Level 3 inputs (in thousands).

					Total Gains or Losses (Realized or Unrealized)		
	Balance at Beginning of Year	Purchases/ Additions	Sales/ Reductions	Transfers into Level 3	Included in Net Income	Included in Other Comprehensive Income (Loss)	Balance at End of Year
Year ended December 31, 2020							
Loans held for sale	$ 67,195	$ 61,410	$ (57,682)	$ 10,323	$ (9,430)	$ —	$ 71,816
MSR asset	55,504	162,914	(36,750)	—	(37,926)	—	143,742
Total	$ 122,699	$ 224,324	$ (94,432)	$ 10,323	$ (47,356)	$ —	$ 215,558
Year ended December 31, 2019							
Loans held for sale	$ 50,464	$ 60,475	$ (34,849)	$ 1,136	$ (10,031)	$ —	$ 67,195
MSR asset	66,102	13,755	—	—	(24,353)	—	55,504
Total	$ 116,566	$ 74,230	$ (34,849)	$ 1,136	$ (34,384)	$ —	$ 122,699
Year ended December 31, 2018							
Loans held for sale	$ 36,972	$ 61,573	$ (41,801)	$ —	$ (6,280)	$ —	$ 50,464
MSR asset	54,714	25,028	(9,303)	—	(4,337)	—	66,102
Total	$ 91,686	$ 86,601	$ (51,104)	$ —	$ (10,617)	$ —	$ 116,566

All net realized and unrealized gains (losses) in the table above are reflected in the accompanying consolidated financial statements. The unrealized gains (losses) relate to financial instruments still held at December 31, 2020.

For Level 3 financial instruments measured at fair value on a recurring basis at December 31, 2020 and 2019, the significant unobservable inputs used in the fair value measurements were as follows.

			Range (Weighted-Average) December 31,	
Financial instrument	Valuation Technique	Unobservable Inputs	2020	2019
Loans held for sale	Market comparable	Projected price	91 - 94 % (94 %)	92 - 96 % (95 %)
MSR asset	Discounted cash flows	Constant prepayment rate	12.15 %	13.16 %
		Discount rate	14.60 %	11.14 %

The Company had no transfers between Levels 1 and 2 during the periods presented. Any transfers are based on changes in the observability and/or significance of the valuation inputs and are assumed to occur at the beginning of the quarterly reporting period in which they occur.

The following table presents those changes in fair value of instruments recognized in the consolidated statements of operations that are accounted for under the Fair Value Option (in thousands).

	Year Ended December 31, 2020			Year Ended December 31, 2019			Year Ended December 31, 2018		
	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value	Net Gains (Losses)	Other Noninterest Income	Total Changes in Fair Value
Loans held for sale	$ 52,296	$ —	$ 52,296	$ 12,775	$ —	$ 12,775	$ (8,063)	$ —	$ (8,063)
MSR asset	(37,926)	—	(37,926)	(24,353)	—	(24,353)	(4,337)	—	(4,337)

The Company determines the fair value of OREO on a non-recurring basis. In particular, the fair value of properties are determined at their respective acquisition date fair values. In addition, facts and circumstances may dictate a fair value measurement when there is evidence of impairment. The Company determines fair value primarily using independent appraisals of OREO properties. The resulting fair value measurements are classified as Level 2 inputs. At December 31, 2020 and 2019, the estimated fair value of OREO was $21.3 million and $18.2 million, respectively, and the underlying fair value measurements utilized Level 2 inputs. The amounts are included in other assets within the consolidated balance sheets. During the reported periods, all fair value measurements for OREO subsequent to initial recognition utilized Level 2 inputs. The Company recorded total losses of $4.4 million, $1.4 million and $2.8 million during 2020, 2019 and 2018, respectively, which represent a change in fair value subsequent to initial recognition of the asset.

The Fair Value of Financial Instruments Subsection of the ASC requires disclosure of the fair value of financial assets and liabilities, including the financial assets and liabilities previously discussed. The methods for determining estimated fair value for financial assets and liabilities measured at fair value on a recurring or non-recurring basis are discussed above. For other financial assets and liabilities, the Company utilizes quoted market prices, if available, to estimate the fair value of financial instruments. Because no quoted market prices exist for a significant portion of the Company's financial instruments, the fair value of such instruments has been derived based on management's assumptions with respect to future economic conditions, the amount and timing of future cash flows, and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, the estimates provided herein do not necessarily indicate amounts which could be realized in a current transaction. Further, as it is management's intent to hold a significant portion of its financial instruments to maturity, it is not probable that the fair values shown below will be realized in a current transaction.

Because of the wide range of permissible valuation techniques and the numerous estimates which must be made, it may be difficult to make reasonable comparisons of the Company's fair value information to that of other financial institutions. The aggregate estimated fair value amount should in no way be construed as representative of the underlying value of Hilltop and its subsidiaries. The following methods and assumptions are typically used in estimating the fair value disclosures for financial instruments:

Cash and Cash Equivalents — For cash and due from banks and federal funds sold, the carrying amount is a reasonable estimate of fair value.

Assets Segregated for Regulatory Purposes — Assets segregated for regulatory purposes may consist of cash and securities with carrying amounts that approximate fair value.

Securities Purchased Under Agreements to Resell — Securities purchased under agreements to resell are carried at the amounts at which the securities will subsequently be resold as specified in the agreements. The carrying amounts approximate fair value due to their short-term nature.

Held to Maturity Securities — For securities held to maturity, estimated fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Loans Held for Sale — Loans held for sale includes mortgage loans held for sale that are guaranteed by U.S. government agencies that are subject to repurchase, or have been repurchased, by PrimeLending and certain mortgage loans originated by PrimeLending on behalf of the Bank. Such loans are reported at fair value, as discussed above, using Level 2 inputs that consist of commitments on hand from investors or prevailing market prices.

Loans Held for Investment — The estimated fair values of loans held for investment are measured using an exit price method.

Broker-Dealer and Clearing Organization Receivables and Payables — The carrying amount approximates their fair value.

Deposits — The estimated fair value of demand deposits, savings accounts and NOW accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The carrying amount for variable-rate certificates of deposit approximates their fair values.

Short-Term Borrowings — The carrying amounts of federal funds purchased, borrowings under repurchase agreements, Federal Home Loan Bank ("FHLB") and other short-term borrowings approximate their fair values.

Debt — The fair values are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar types of borrowing arrangements.

Other Assets and Liabilities — Other assets and liabilities primarily consists of cash surrender value of life insurance policies and accrued interest receivable and payable with carrying amounts that approximate their fair values using Level 2 inputs. The fair value of certain other receivables and investments is based on Level 3 inputs.

The following tables present the carrying values and estimated fair values of financial instruments not measured at fair value on either a recurring or non-recurring basis (in thousands).

		Estimated Fair Value			
December 31, 2020	**Carrying Amount**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total**
Financial assets:					
Cash and cash equivalents	$ 1,062,946	$ 1,062,946	$ —	$ —	$ 1,062,946
Assets segregated for regulatory purposes	290,357	290,357	—	—	290,357
Securities purchased under agreements to resell	80,319	—	80,319	—	80,319
Held to maturity securities	311,944	—	326,671	—	326,671
Loans held for sale	266,982	—	266,982	—	266,982
Loans held for investment, net	7,544,097	—	437,007	7,351,411	7,788,418
Broker-dealer and clearing organization receivables	1,404,727	—	1,404,727	—	1,404,727
Other assets	74,881	—	73,111	1,770	74,881
Financial liabilities:					
Deposits	11,242,319	—	11,256,629	—	11,256,629
Broker-dealer and clearing organization payables	1,368,373	—	1,368,373	—	1,368,373
Short-term borrowings	695,798	—	695,798	—	695,798
Debt	448,999	—	448,999	—	448,999
Other liabilities	6,133	—	6,133	—	6,133

		Estimated Fair Value			
December 31, 2019	**Carrying Amount**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total**
Financial assets:					
Cash and cash equivalents	$ 434,020	$ 434,020	$ —	$ —	$ 434,020
Assets segregated for regulatory purposes	157,436	157,436	—	—	157,436
Securities purchased under agreements to resell	59,031	—	59,031	—	59,031
Held to maturity securities	386,326	—	388,930	—	388,930
Loans held for sale	170,648	—	170,648	—	170,648
Loans held for investment, net	7,320,264	—	576,527	6,990,706	7,567,233
Broker-dealer and clearing organization receivables	1,780,280	—	1,780,280	—	1,780,280
Other assets	71,040	—	69,580	1,460	71,040
Financial liabilities:					
Deposits	9,032,214	—	9,032,496	—	9,032,496
Broker-dealer and clearing organization payables	1,605,518	—	1,605,518	—	1,605,518
Short-term borrowings	1,424,010	—	1,424,010	—	1,424,010
Debt	323,281	—	323,281	—	323,281
Other liabilities	8,340	—	8,340	—	8,340

The Company held equity investments other than securities of $63.6 million and $36.6 million at December 31, 2020 and 2019, respectively, which are included within other assets in the consolidated balance sheets. Of the $63.6 million of such equity investments held at December 31, 2020, $22.8 million do not have readily determinable fair values and each is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

The following table presents the adjustments to the carrying value of these investments (in thousands).

	Year Ended December 31, 2020	Year Ended December 31, 2019
Balance, beginning of year	$ 19,771	$ 20,376
Additional investments	500	—
Upward adjustments	4,188	403
Impairments and downward adjustments	(1,615)	(1,008)
Dispositions	—	—
Balance, end of year	$ 22,844	$ 19,771

6. Securities

The fair value of trading securities are summarized as follows (in thousands).

	December 31, 2020	December 31, 2019
U.S. Treasury securities	$ 40,491	$ —
U.S. government agencies:		
Bonds	40	24,680
Residential mortgage-backed securities	336,081	331,601
Commercial mortgage-backed securities	876	2,145
Collateralized mortgage obligations	69,172	191,154
Corporate debt securities	62,481	36,973
States and political subdivisions	171,573	93,117
Unit investment trusts	—	3,468
Private-label securitized product	8,571	2,992
Other	4,970	3,446
Totals	$ 694,255	$ 689,576

In addition to the securities shown above, the Hilltop Broker-Dealers enter into transactions that represent commitments to purchase and deliver securities at prevailing future market prices to facilitate customer transactions and satisfy such commitments. Accordingly, the Hilltop Broker-Dealers' ultimate obligation may exceed the amount recognized in the financial statements. These securities, which are carried at fair value and reported as securities sold, not yet purchased in the consolidated balance sheets, had a value of $79.8 million and $43.8 million at December 31, 2020 and 2019, respectively.

The amortized cost and fair value of available for sale and held to maturity securities are summarized as follows (in thousands).

	Available for Sale			
December 31, 2020	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agencies:				
Bonds	$ 82,036	$ 1,095	$ (325)	$ 82,806
Residential mortgage-backed securities	624,863	17,194	(446)	641,611
Commercial mortgage-backed securities	124,929	768	(1,159)	124,538
Collateralized mortgage obligations	559,362	6,916	(370)	565,908
States and political subdivisions	44,729	2,613	—	47,342
Totals	$ 1,435,919	$ 28,586	$ (2,300)	$ 1,462,205

	Available for Sale			
December 31, 2019	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. government agencies:				
Bonds	$ 84,590	$ 1,049	$ (64)	$ 85,575
Residential mortgage-backed securities	430,514	6,662	(147)	437,029
Commercial mortgage-backed securities	11,488	543	—	12,031
Collateralized mortgage obligations	333,256	3,175	(815)	335,616
States and political subdivisions	39,969	1,273	—	41,242
Totals	$ 899,817	$ 12,702	$ (1,026)	$ 911,493

	Held to Maturity			
December 31, 2020	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. government agencies:				
Residential mortgage-backed securities	$ 13,547	$ 708	$ —	$ 14,255
Commercial mortgage-backed securities	152,820	9,205	—	162,025
Collateralized mortgage obligations	74,932	2,036	—	76,968
States and political subdivisions	70,645	2,778	—	73,423
Totals	$ 311,944	$ 14,727	$ —	$ 326,671

	Held to Maturity			
December 31, 2019	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. government agencies:				
Bonds	$ 24,020	$ 10	$ (35)	$ 23,995
Residential mortgage-backed securities	17,776	295	—	18,071
Commercial mortgage-backed securities	161,624	2,810	(655)	163,779
Collateralized mortgage obligations	113,894	226	(904)	113,216
States and political subdivisions	69,012	1,013	(156)	69,869
Totals	$ 386,326	$ 4,354	$ (1,750)	$ 388,930

Additionally, the Company had unrealized net gains of $0.1 million at both December 31, 2020 and 2019 from equity securities with fair values of $0.1 million and $0.2 million at December 31, 2020 and 2019, respectively. The Company recognized nominal net gains and losses during 2020 and 2019 due to changes in the fair value of equity securities still held at the balance sheet date. During 2020 and 2019, net gains and losses recognized from equity securities sold were nominal.

Information regarding available for sale, held to maturity and equity securities that were in an unrealized loss position is shown in the following tables (dollars in thousands).

	December 31, 2020			December 31, 2019		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Available for Sale						
U.S. government agencies:						
Bonds:						
Unrealized loss for less than twelve months	8	$ 60,298	$ 325	2	$ 24,937	$ 64
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	8	60,298	325	2	24,937	64
Residential mortgage-backed securities:						
Unrealized loss for less than twelve months	15	86,287	429	37	36,187	87
Unrealized loss for twelve months or longer	—	—	—	2	13,683	58
	15	86,287	429	39	49,870	145
Commercial mortgage-backed securities:						
Unrealized loss for less than twelve months	10	105,386	1,176	1	9,967	2
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	10	105,386	1,176	1	9,967	2
Collateralized mortgage obligations:						
Unrealized loss for less than twelve months	10	101,990	324	15	94,545	446
Unrealized loss for twelve months or longer	5	13,611	46	13	46,217	369
	15	115,601	370	28	140,762	815
States and political subdivisions:						
Unrealized loss for less than twelve months	—	—	—	—	—	—
Unrealized loss for twelve months or longer	—	—	—	1	487	—
	—	—	—	1	487	—
Total available for sale:						
Unrealized loss for less than twelve months	43	353,961	2,254	55	165,636	599
Unrealized loss for twelve months or longer	5	13,611	46	16	60,387	427
	48	$ 367,572	$ 2,300	71	$ 226,023	$ 1,026

	December 31, 2020			December 31, 2019		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Held to Maturity						
U.S. government agencies:						
Bonds:						
Unrealized loss for less than twelve months	—	$ —	$ —	2	$ 9,665	$ 35
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	—	—	—	2	9,665	35
Commercial mortgage-backed securities:						
Unrealized loss for less than twelve months	—	—	—	8	44,610	656
Unrealized loss for twelve months or longer	—	—	—	—	—	—
	—	—	—	8	44,610	656
Collateralized mortgage obligations:						
Unrealized loss for less than twelve months	—	—	—	4	23,904	287
Unrealized loss for twelve months or longer	—	—	—	8	59,560	617
	—	—	—	12	83,464	904
States and political subdivisions:						
Unrealized loss for less than twelve months	2	578	—	38	15,996	124
Unrealized loss for twelve months or longer	—	—	—	4	1,099	31
	2	578	—	42	17,095	155
Total held to maturity:						
Unrealized loss for less than twelve months	2	578	—	52	94,175	1,102
Unrealized loss for twelve months or longer	—	—	—	12	60,659	648
	2	$ 578	$ —	64	$ 154,834	$ 1,750

Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without penalties. The amortized cost and fair value of securities, excluding trading and equity securities, at December 31, 2020 are shown by contractual maturity below (in thousands).

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,999	$ 5,072	$ 645	$ 646
Due after one year through five years	61,182	62,636	1,225	1,273
Due after five years through ten years	17,537	18,179	8,205	8,525
Due after ten years	43,047	44,261	60,570	62,979
	126,765	130,148	70,645	73,423
Residential mortgage-backed securities	624,863	641,611	13,547	14,255
Collateralized mortgage obligations	559,362	565,908	74,932	76,968
Commercial mortgage-backed securities	124,929	124,538	152,820	162,025
	$ 1,435,919	$ 1,462,205	$ 311,944	$ 326,671

During 2020, 2019 and 2018, the Company recognized net gains from its trading portfolio of $122.0 million, $20.5 million and $6.2 million, respectively. In addition, the Hilltop Broker-Dealers realized net gains from structured product trading activities of $77.1 million, $132.7 million and $41.9 million during 2020, 2019 and 2018, respectively. During 2020 and 2019, the Company had other realized gains on securities of $0.2 million and other realized losses on securities of $2.5 million, respectively, while other net realized gains on securities during 2018 were nominal. All such net gains and losses are recorded as a component of other noninterest income within the consolidated statements of operations.

Securities with a carrying amount of $712.3 million and $576.0 million (with a fair value of $733.8 million and $583.6 million, respectively) at December 31, 2020 and 2019, respectively, were pledged by the Bank to secure public and trust deposits, federal funds purchased and securities sold under agreements to repurchase, and for other purposes as required or permitted by law. Substantially all of these pledged securities were included in the Company's available for sale and held to maturity securities portfolios at December 31, 2020 and 2019.

Mortgage-backed securities and collateralized mortgage obligations consist principally of GNMA, Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("FHLMC") pass-through and participation certificates. GNMA securities are guaranteed by the full faith and credit of the United States, while FNMA and FHLMC securities are fully guaranteed by those respective United States government-sponsored agencies, and conditionally guaranteed by the full faith and credit of the United States.

7. Loans Held for Investment

The Bank originates loans to customers primarily in Texas. Although the Bank has diversified loan and leasing portfolios and, generally, holds collateral against amounts advanced to customers, its debtors' ability to honor their contracts is substantially dependent upon the general economic conditions of the region and of the industries in which its debtors operate, which consist primarily of agribusiness, construction, energy, real estate and wholesale/retail trade. The Hilltop Broker-Dealers make loans to customers and correspondents through transactions originated by both employees and independent retail representatives throughout the United States. The Hilltop Broker-Dealers control risk by requiring customers to maintain collateral in compliance with various regulatory and internal guidelines, which may vary based upon market conditions. Securities owned by customers and held as collateral for loans are not included in the consolidated financial statements.

Loans held for investment summarized by portfolio segment are as follows (in thousands).

	December 31, 2020	December 31, 2019
Commercial real estate	$ 3,133,903	$ 3,000,523
Commercial and industrial [(1)]	2,627,774	2,025,720
Construction and land development	828,852	940,564
1-4 family residential	629,938	791,020
Consumer	35,667	47,046
Broker-dealer [(2)]	437,007	576,527
	7,693,141	7,381,400
Allowance for credit losses	(149,044)	(61,136)
Total loans held for investment, net of allowance	$ 7,544,097	$ 7,320,264

(1) Included loans totaling $486.7 million at December 31, 2020 funded through the Paycheck Protection Program.
(2) Primarily represents margin loans to customers and correspondents associated with broker-dealer segment operations.

The following table provides details associated with non-accrual loans, excluding those classified as held for sale (in thousands).

	Non-accrual Loans				Interest Income Recognized (1)
	December 31, 2020				
	With Allowance	With No Allowance	Total	December 31, 2019	Year Ended December 31, 2020
Commercial real estate:					
Non-owner occupied	$ 1,213	$ 445	$ 1,658	$ 3,813	$ 1,364
Owner occupied	3,473	6,002	9,475	3,495	295
Commercial and industrial	10,821	23,228	34,049	15,262	2,362
Construction and land development	102	405	507	1,316	110
1-4 family residential	4,726	16,651	21,377	7,382	1,568
Consumer	28	—	28	26	122
Broker-dealer	—	—	—	—	—
	$ 20,363	$ 46,731	$ 67,094	$ 31,294	$ 5,821

(1) Interest income recognized on non-accrual loans during 2019 and 2018 was $1.6 million and $1.4 million, respectively.

At December 31, 2020 and 2019, $10.9 million and $4.8 million, respectively, of real estate loans secured by residential properties and classified as held for sale were in non-accrual status.

Loans accounted for on a non-accrual basis increased from December 31, 2019 to December 31, 2020, by $35.8 million. A number of loans previously accounted for in accruing pools under ASC 310-30 were reclassified to non-accrual in the CECL transition. The increase in commercial real estate loans in non-accrual status at December 31, 2020 of $3.8 million was primarily related to the addition of loans totaling $8.4 million, of which $6.8 million were previously accruing at December 31, 2019, partially offset by the resolution of loans totaling $4.5 million. Commercial real estate loans in non-accrual status carried a reserve of $1.1 million at December 31, 2020. The increase in commercial and industrial loans in non-accrual status since December 31, 2019 was primarily due to a small number of relationships that included loans totaling $18.9 million and a CECL transition gross-up adjustment of $4.3 million related to a single loan. Commercial and industrial loans in non-accrual status carried a reserve of $7.9 million at December 31, 2020. The increase in 1-4 family residential loans in non-accrual status at December 31, 2020, compared to December 31, 2019, was primarily related to the addition of $17.1 million of loans in non-accrual status, of which $15.0 million were previously accruing at December 31, 2019, partially offset by both the return to accruing classification and resolution of loans totaling $3.2 million. 1-4 family residential loans in non-accrual status carried a reserve of $0.7 million at December 31, 2020.

The Company considers non-accrual loans to be collateral-dependent unless there are underlying mitigating circumstances. The practical expedient to measure the allowance using the fair value of the collateral has been implemented.

The Bank classifies loan modifications as troubled debt restructurings ("TDRs") when it concludes that it has both granted a concession to a debtor and that the debtor is experiencing financial difficulties. Loan modifications are typically structured to create affordable payments for the debtor and can be achieved in a variety of ways. The Bank modifies loans by reducing interest rates and/or lengthening loan amortization schedules. The Bank may also reconfigure a single loan into two or more loans ("A/B Note"). The typical A/B Note restructure results in a "bad" loan which is charged off and a "good" loan or loans, the terms of which comply with the Bank's customary underwriting policies. The debt charged off on the "bad" loan is not forgiven to the debtor.

In March 2020, the CARES Act was passed, which, among other things, allows the Bank to suspend the requirements for certain loan modifications to be categorized as a TDR, including the related impairment for accounting purposes. On December 27, 2020, the Consolidated Appropriations Act 2021 was signed into law. (Section 541) of this legislation, "Extension of Temporary Relief From Troubled Debt Restructurings and Insurer Clarification," extends certain relief provisions from the March CARES Act that were set to expire at the end of 2020. This new legislation extends the relief to financial institutions to suspend TDR assessment and reporting requirements under GAAP for loan modifications to the earlier of 60 days after the national emergency termination date or January 1, 2022. The Bank's COVID-19 payment deferral programs allow for a deferral of principal and/or interest payments with such deferred principal payments due and payable on maturity date of the existing loan. The Bank's actions included approval of approximately $968 million in COVID-19 related loan modifications as of June 30, 2020. During the third and fourth quarters of 2020, the Bank continued to support its impacted banking clients through the approval of COVID-19 related loan modifications, which resulted in an additional $75 million of new COVID-19 related loan modifications since June 30, 2020. The portfolio of active deferrals that have not reached the end of their deferral period was approximately $240 million as of December 31, 2020, of which approximately $90 million had received an additional deferral. COVID-19 related loan modifications of approximately $714 million have returned to agreed-upon contractual terms and had made at least one required principal and/or interest payment since the end of their initial deferral period. Such loans represent elevated risk, therefore management continues to monitor these loans. The extent to which these measures will impact the Bank is uncertain, and any progression of loans, whether receiving COVID-19 payment deferrals or not, into non-accrual status during future periods is uncertain and will depend on future developments that cannot be predicted.

Information regarding TDRs granted during 2020 and 2019 that do not qualify for the CARES Act exemption is shown in the following table (dollars in thousands). There were no TDRs granted during 2018.

	Year Ended December 31, 2020			Year Ended December 31, 2019		
	Number of Loans	Balance at Extension	Balance at End of Period	Number of Loans	Balance at Extension	Balance at End of Period
Commercial real estate:						
Non-owner occupied	—	$ —	$ —	—	$ —	$ —
Owner occupied	—	—	—	—	—	—
Commercial and industrial	3	9,464	4,116	4	9,618	8,566
Construction and land development	—	—	—	—	—	—
1-4 family residential	5	438	438	—	—	—
Consumer	—	—	—	—	—	—
Broker-dealer	—	—	—	—	—	—
	8	$ 9,902	$ 4,554	4	$ 9,618	$ 8,566

All of the loan modifications included in the table above involved payment term extensions. The Bank did not grant principal reductions on any restructured loans during 2020, 2019 or 2018.

At December 31, 2020 and 2019, the Bank had nominal unadvanced commitments to borrowers whose loans have been restructured in TDRs. There were no TDRs granted during the twelve months preceding December 31, 2020, 2019 or 2018 for which a payment was at least 30 days past due.

An analysis of the aging of the Company's loan portfolio is shown in the following tables (in thousands).

December 31, 2020	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans Past Due 90 Days or More
Commercial real estate:							
Non-owner occupied	$ 1,919	$ —	$ 199	$ 2,118	$ 1,786,193	$ 1,788,311	$ —
Owner occupied	195	522	8,328	9,045	1,336,547	1,345,592	—
Commercial and industrial	3,114	407	7,318	10,839	2,616,935	2,627,774	6
Construction and land development	19	—	—	19	828,833	828,852	—
1-4 family residential	8,110	3,040	12,420	23,570	606,368	629,938	—
Consumer	172	123	26	321	35,346	35,667	—
Broker-dealer	—	—	—	—	437,007	437,007	—
	$ 13,529	$ 4,092	$ 28,291	$ 45,912	$ 7,647,229	$ 7,693,141	$ 6

December 31, 2019	Loans Past Due 30-59 Days	Loans Past Due 60-89 Days	Loans Past Due 90 Days or More	Total Past Due Loans	Current Loans	Total Loans	Accruing Loans Past Due 90 Days or More
Commercial real estate:							
Non-owner occupied	$ 4,062	$ —	$ 2,790	$ 6,852	$ 1,702,500	$ 1,709,352	$ —
Owner occupied	1,813	880	3,265	5,958	1,285,213	1,291,171	—
Commercial and industrial	5,967	1,735	3,395	11,097	2,014,623	2,025,720	3
Construction and land development	7,580	1,827	—	9,407	931,157	940,564	—
1-4 family residential	12,058	3,442	6,520	22,020	769,000	791,020	—
Consumer	455	34	—	489	46,557	47,046	—
Broker-dealer	—	—	—	—	576,527	576,527	—
	$ 31,935	$ 7,918	$ 15,970	$ 55,823	$ 7,325,577	$ 7,381,400	$ 3

In addition to the loans shown in the tables above, PrimeLending had $243.6 million and $102.7 million of loans included in loans held for sale (with an aggregate unpaid principal balance of $245.5 million and $104.0 million, respectively) that were 90 days past due and accruing interest at December 31, 2020 and 2019, respectively. These loans are guaranteed by U.S. government agencies and include loans that are subject to repurchase, or have been repurchased, by PrimeLending.

In response to the ongoing COVID-19 pandemic, the Company allowed modifications, such as payment deferrals for up to 90 days and temporary forbearance, to credit-worthy borrowers who are experiencing temporary hardship due to the effects of COVID-19. These short-term modifications generally meet the criterial of the CARES Act and, therefore, they are not reported as past due or placed on non-accrual status (provided the loans were not past due or on non-accrual status prior to the deferral). The Company elected to accrue and recognize interest income on these modifications during the payment deferral period.

Additionally, the Company granted temporary forbearance to borrowers of a federally backed mortgage loan experiencing financial hardship due, directly or indirectly, to the COVID-19 pandemic. The CARES Act, which among other things, established the ability for financial institutions to grant a forbearance for up to 180 days, which can be extended for an additional 180-day period upon the request of the borrower. During that time, no fees, penalties or interest beyond the amounts scheduled or calculated as if the borrower made all contractual payments on time and in full under the mortgage contract will accrue on the borrower's account. As of December 31, 2020, PrimeLending had $198.8 million of loans subject to repurchase under a forbearance agreement.

Management tracks credit quality trends on a quarterly basis related to: (i) past due levels, (ii) non-performing asset levels, (iii) classified loan levels, and (v) general economic conditions in state and local markets. The Company defines classified loans as loans with a risk rating of substandard, doubtful or loss.

A description of the risk rating internal grades for commercial loans to is presented in the following table.

Risk Rating	Internal Grade	Risk Rating Description
Pass low risk	1 - 3	Represents loans to very high credit quality commercial borrowers of investment or near investment grade. These borrowers have significant capital strength, moderate leverage, stable earnings and growth, and readily available financing alternatives. Commercial borrowers entirely cash secured are also included in this category.
Pass normal risk	4 - 7	Represents loans to commercial borrowers of solid credit quality with moderate risk. Borrowers in these grades are differentiated from higher grades on the basis of size (capital and/or revenue), leverage, asset quality and the stability of the industry or market area.
Pass high risk	8 - 10	Represents "pass grade" loans to commercial borrowers of higher, but acceptable credit quality and risk. Such borrowers are differentiated from Pass Normal Risk in terms of size, secondary sources of repayment or they are of lesser stature in other key credit metrics.
Watch	11	Represents loans on management's "watch list" and is intended to be utilized on a temporary basis for pass grade commercial borrowers where a significant risk-modifying action is anticipated in the near term.
Special mention	12	Represents loans with potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in a deterioration of the repayment prospects for the loans and weaken the Company's credit position at some future date.
Substandard accrual	13	Represents loans for which the accrual of interest has not been stopped, but are inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
Substandard non-accrual	14	Represents loans for which the accrual of interest has been stopped and includes loans where interest is more than 90 days past due and not fully secured and loans where a specific valuation allowance may be necessary.
Doubtful	15	Represents loans that are placed on non-accrual status and may be dependent upon collateral having a value that is difficult to determine or upon some near-term event which lacks certainty.
Loss	16	Represents loans that are to be charged-off or charged-down when payment is acknowledged to be uncertain or when the timing or value of payments cannot be determined. Rating is not intended to imply that the loan or some portion of it will never be paid, nor does it in any way imply that there has been a forgiveness of debt.

The following table presents loans held for investment grouped by asset class and credit quality indicator, segregated by year of origination or renewal (in thousands).

	Amortized Cost Basis by Origination Year							
December 31, 2020	**2020**	**2019**	**2018**	**2017**	**2016**	**2015 and Prior**	**Revolving**	**Total**
Commercial real estate: non-owner occupied								
Internal Grade 1-3 (Pass low risk)	$ 21,135	$ 22,913	$ 3,171	$ 2,735	$ 12,896	$ 15,263	$ 1	$ 78,114
Internal Grade 4-7 (Pass normal risk)	245,833	138,836	83,951	88,119	108,371	64,200	47,920	777,230
Internal Grade 8-11 (Pass high risk and watch)	227,440	133,246	122,022	99,473	108,536	64,031	488	755,236
Internal Grade 12 (Special mention)	—	—	—	—	—	—	—	—
Internal Grade 13 (Substandard accrual)	34,020	16,139	29,166	29,810	33,353	33,467	118	176,073
Internal Grade 14 (Substandard non-accrual)	—	—	—	—	—	1,658	—	1,658
Commercial real estate: owner occupied								
Internal Grade 1-3 (Pass low risk)	$ 60,809	$ 21,011	$ 12,712	$ 44,163	$ 21,567	$ 37,688	$ 1	$ 197,951
Internal Grade 4-7 (Pass normal risk)	164,939	169,582	131,821	56,801	53,811	75,372	39,868	692,194
Internal Grade 8-11 (Pass high risk and watch)	118,328	80,375	49,601	23,588	23,330	30,249	1,291	326,762
Internal Grade 12 (Special mention)	365	—	3,691	—	—	527	—	4,583
Internal Grade 13 (Substandard accrual)	8,372	5,620	69,617	10,315	8,663	12,040	—	114,627
Internal Grade 14 (Substandard non-accrual)	506	1,259	441	5,345	1,045	879	—	9,475
Commercial and industrial								
Internal Grade 1-3 (Pass low risk)	$ 30,754	$ 27,144	$ 7,149	$ 5,486	$ 3,587	$ 335	$ 21,651	$ 96,106
Internal Grade 4-7 (Pass normal risk)	179,394	54,423	53,908	29,778	24,179	10,945	395,320	747,947
Internal Grade 8-11 (Pass high risk and watch)	95,835	62,411	20,162	13,459	13,885	2,144	197,273	405,169
Internal Grade 12 (Special mention)	757	14	3,723	—	152	—	2,093	6,739
Internal Grade 13 (Substandard accrual)	9,863	3,689	13,788	5,531	5,759	253	19,360	58,243
Internal Grade 14 (Substandard non-accrual)	25,107	5,084	2,021	315	16	98	1,408	34,049
Construction and land development								
Internal Grade 1-3 (Pass low risk)	$ 15,764	$ 2,710	$ 4,176	$ 264	$ 4,129	$ 331	$ 624	$ 27,998
Internal Grade 4-7 (Pass normal risk)	202,624	103,864	63,135	3,210	2,596	3,142	28,387	406,958
Internal Grade 8-11 (Pass high risk and watch)	194,432	97,206	47,102	9,659	3,552	544	7,951	360,446
Internal Grade 12 (Special mention)	—	—	—	—	—	—	—	—
Internal Grade 13 (Substandard accrual)	8,684	29	—	5,385	—	65	—	14,163
Internal Grade 14 (Substandard non-accrual)	—	405	—	—	—	102	—	507
Construction and land development - individuals								
FICO less than 620	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
FICO between 620 and 720	557	—	1,253	—	—	—	—	1,810
FICO greater than 720	13,207	—	2,539	—	—	—	—	15,746
Substandard non-accrual	—	—	—	—	—	—	—	—
Other (1)	1,224	—	—	—	—	—	—	1,224
1-4 family residential								
FICO less than 620	$ 1,109	$ 819	$ 3,674	$ 56	$ 883	$ 32,077	$ 318	$ 38,936
FICO between 620 and 720	17,269	18,461	9,545	8,714	8,171	41,625	1,289	105,074
FICO greater than 720	125,094	80,688	65,975	37,943	29,171	70,815	5,313	414,999
Substandard non-accrual	—	—	—	96	714	20,567	—	21,377
Other (1)	27,407	10,085	5,998	1,899	920	2,529	714	49,552
Consumer								
FICO less than 620	$ 955	$ 1,235	$ 106	$ 128	$ 43	$ 22	$ 334	$ 2,823
FICO between 620 and 720	5,194	2,627	478	536	118	79	2,157	11,189
FICO greater than 720	6,849	1,674	2,952	292	60	34	3,054	14,915
Substandard non-accrual	—	—	—	27	—	1	—	28
Other (1)	5,050	1,141	129	43	36	—	313	6,712
Total loans with credit quality measures	$ 1,848,876	$ 1,062,690	$ 814,006	$ 483,170	$ 469,543	$ 521,082	$ 777,246	$ 5,976,613
Commercial and industrial (mortgage warehouse lending)								$ 792,806
Commercial and industrial (Paycheck Protection Program loans)								$ 486,715
Broker-Dealer (margin loans and correspondent receivables)								$ 437,007
Total loans held for investment								$ 7,693,141

(1) Loans classified in this category were assigned a FICO score based on various factors specific to the borrower for credit modeling purposes.

8. Allowance for Credit Losses

Available for Sale Securities and Held to Maturity Securities

The Company has evaluated available for sale debt securities that are in an unrealized loss position and has determined that any declines in value is unrelated to credit loss and related to changes in market interest rates since purchase. None of the available for sale debt securities held were past due at December 31, 2020. In addition, as of December 31, 2020, the Company had not made a decision to sell any of its debt securities held, nor did the Company consider it more likely than not that it would be required to sell such securities before recovery of their amortized cost basis. The Company does not expect to have credit losses associated with the debt securities and no allowance was recognized on the debt securities portfolio at transition.

Loans Held for Investment

The allowance for credit losses for loans held for investment represents management's best estimate of all expected credit losses over the expected contractual life of our existing portfolio. Management revised its methodology for determining the allowance for credit losses upon the implementation of CECL. Management considers the level of allowance for credit losses to be a reasonable and supportable estimate of expected credit losses inherent within the loans held for investment portfolio as of December 31, 2020. While the Company believes it has an appropriate allowance for the existing loan portfolio at December 31, 2020, additional provision for losses on existing loans may be necessary in the future. Future changes in the allowance for credit losses are expected to be volatile given dependence upon, among other things, the portfolio composition and quality, as well as the impact of significant drivers, including prepayment assumptions and macroeconomic conditions and forecasts. In addition to the allowance for credit losses, the Company maintains a separate allowance for credit losses related to off-balance sheet credit exposures, including unfunded loan commitments, and this amount is included in other liabilities within the consolidated balance sheets. For further information on the policies that govern the estimation of the allowances for credit losses levels, see Note 1 to the consolidated financial statements.

One of the most significant judgments involved in estimating the Company's allowance for credit losses relates to the macroeconomic forecasts used to estimate credit losses over the reasonable and supportable forecast period. To determine our best estimate of expected credit losses as of December 31, 2020, the Company utilized a single macroeconomic baseline scenario published by a third party in December 2020 that was updated to reflect the U.S. economic outlook due to COVID-19 conditions. This baseline scenario utilizes multiple economic variables in forecasting the economic outlook. Significant variables that impact the modeled losses across our loan portfolios are the U.S. Real Gross Domestic Product, or GDP, growth rates and unemployment rate assumptions. Changes in these assumptions and forecasts of economic conditions could significantly affect the estimate of expected credit losses at the balance sheet date or between reporting periods.

The COVID-19 pandemic has resulted in a weak labor market and weak overall economic conditions that will affect borrowers across our lending portfolios and significant judgment is required to estimate the severity and duration of the current economic downturn, as well as its potential impact on borrower defaults and loss severity. In particular, macroeconomic conditions and forecasts regarding the duration and severity of the economic downturn are rapidly changing and remain highly uncertain as the resurgence of COVID-19 cases evolves nationally and in key geographies. It is difficult to predict exactly how borrower behavior will be impacted by these economic conditions as the effectiveness of government stimulus, customer relief and enhanced unemployment benefits should help mitigate in the short term, but the extent and duration of government stimulus as well as performance of recently implemented payment deferral programs remains uncertain.

During the first quarter of 2020, the Company adopted the new CECL standard and recorded transition adjustment entries that resulted in an allowance for credit losses of $73.7 million as of January 1, 2020, an increase of $12.6 million. This increase included an increase in credit losses of $18.9 million from the expansion of the loss horizon to life of loan, partially offset by the elimination of the non-credit component within the historical allowance related to previously categorized PCI loans of $6.3 million.

During 2020, the significant build in the allowance included provision for credit losses on individually evaluated loans of $20.2 million, while the provision for credit losses on expected losses of collectively evaluated loans accounted for $76.1 million of the total provision primarily due to the identified changes in the Bank's loan portfolio composition and credit quality and the increase in the expected lifetime credit losses under CECL attributable to the deteriorating economic outlook associated with the impact of the market disruption caused by the COVID-19 pandemic. The change to the reserve due to the impact of COVID-19 reflects economic uncertainty which, along with the expectation of continued higher unemployment and lower GDP, has increased the probability of default and loss given default rates used in our estimate of the lifetime expected credit losses for our loan portfolio.

The change in the allowance for credit losses during 2020 was primarily attributable to the Bank and also reflected other factors including, but not limited to, loan growth, loan mix, and changes in risk rating grades, macroeconomic factor assumptions and qualitative factors. The change in the allowance during 2020 was also impacted by net charge-offs of $21.1 million, primarily associated with loans specifically reserved for during the first quarter of 2020.

Changes in the allowance for credit losses for loans held for investments, distributed by portfolio segment, are shown below (in thousands).

Year Ended December 31, 2020	Balance, Beginning of Year	Transition Adjustment CECL	Provision for (Reversal of) Credit Losses	Loans Charged Off	Recoveries on Charged Off Loans	Balance, End of Year
Commercial real estate	$ 31,595	$ 8,073	$ 73,865	$ (4,517)	$ 613	$ 109,629
Commercial and industrial	17,964	3,193	22,870	(18,158)	1,834	27,703
Construction and land development	4,878	577	1,222	(2)	2	6,677
1-4 family residential	6,386	(29)	(1,717)	(748)	54	3,946
Consumer	265	748	86	(615)	392	876
Broker-dealer	48	—	165	—	—	213
Total	$ 61,136	$ 12,562	$ 96,491	$ (24,040)	$ 2,895	$ 149,044

Year Ended December 31, 2019	Balance, Beginning of Year	Transition Adjustment CECL	Provision for (Reversal of) Credit Losses	Loans Charged Off	Recoveries on Charged Off Loans	Balance, End of Year
Commercial real estate	$ 27,100	$ —	$ 5,649	$ (1,160)	$ 6	$ 31,595
Commercial and industrial	21,980	—	(921)	(5,924)	2,829	17,964
Construction and land development	6,061	—	(1,183)	—	—	4,878
1-4 family residential	3,956	—	3,276	(907)	61	6,386
Consumer	267	—	459	(498)	37	265
Broker-dealer	122	—	(74)	—	—	48
Total	$ 59,486	$ —	$ 7,206	$ (8,489)	$ 2,933	$ 61,136

Year Ended December 31, 2018	Balance, Beginning of Year	Transition Adjustment CECL	Provision for (Reversal of) Credit Losses	Loans Charged Off	Recoveries on Charged Off Loans	Balance, End of Year
Commercial real estate	$ 27,232	$ —	$ 668	$ (800)	$ —	$ 27,100
Commercial and industrial	23,698	—	6,750	(12,741)	4,273	21,980
Construction and land development	7,847	—	(1,792)	—	6	6,061
1-4 family residential	4,245	—	(292)	(143)	146	3,956
Consumer	311	—	(15)	(93)	64	267
Broker-dealer	353	—	(231)	—	—	122
Total	$ 63,686	$ —	$ 5,088	$ (13,777)	$ 4,489	$ 59,486

Unfunded Loan Commitments

The Bank uses a process similar to that used in estimating the allowance for credit losses on the funded portion to estimate the allowance for credit loss on unfunded loan commitments. The allowance is based on the estimated exposure at default, multiplied by the lifetime PD grade and LGD grade for that particular loan segment. The Bank estimates expected losses by calculating a commitment usage factor based on industry usage factors. The commitment usage factor is applied over the relevant contractual period. Loss factors from the underlying loans to which commitments are related are applied to the results of the usage calculation to estimate any liability for credit losses related for each loan type. The expected losses on unfunded commitments align with statistically calculated parameters used to calculate the allowance for credit losses on the funded portion. There is no reserve calculated for letters of credit as they are issued primarily as credit enhancements and the likelihood of funding is low.

Changes in the allowance for credit losses for loans with off-balance sheet credit exposures are shown below (in thousands).

	Year Ended December 31,		
	2020	2019	2018
Balance, beginning of year	$ 2,075	$ 2,366	$ 1,932
Transition adjustment CECL accounting standard	3,837	—	—
Other noninterest expense	2,476	(291)	434
Balance, end of year	$ 8,388	$ 2,075	$ 2,366

As previously discussed, the Company adopted the new CECL standard and recorded a transition adjustment entry that resulted in an allowance for credit losses of $5.9 million as of January 1, 2020. During 2020, the increase in the reserve for unfunded commitments was primarily due to the macroeconomic uncertainties associated with the impact of the market disruption caused by COVID-19 conditions.

9. Cash and Due from Banks

Cash and due from banks consisted of the following (in thousands).

	December 31,	
	2020	2019
Cash on hand	$ 45,207	$ 39,590
Clearings and collection items	82,396	129,055
Deposits at Federal Reserve Bank	874,998	232,019
Deposits at Federal Home Loan Bank	1,607	1,458
Deposits in FDIC-insured institutions	58,352	31,504
	$ 1,062,560	$ 433,626

The amounts above include interest-bearing deposits of $878.0 million and $235.4 million at December 31, 2020 and 2019, respectively. Cash on hand and deposits at the Federal Reserve Bank satisfy regulatory reserve requirements at December 31, 2020 and December 31, 2019.

10. Premises and Equipment

The components of premises and equipment are summarized as follows (in thousands).

	December 31,	
	2020	2019
Land and premises	$ 125,701	$ 130,312
Furniture and equipment	257,810	265,602
	383,511	395,914
Less accumulated depreciation and amortization	(171,916)	(185,539)
	$ 211,595	$ 210,375

The amounts shown above include gross assets recorded under finance leases of $7.8 million, with accumulated amortization of $4.8 million and $4.2 million at December 31, 2020 and 2019, respectively.

Occupancy expense was reduced by rental income of $1.7 million, $2.7 million and $1.4 million during 2020, 2019 and 2018, respectively. Depreciation and amortization expense on premises and equipment, which includes amortization of finance leases, amounted to $27.9 million, $27.3 million and $30.8 million during 2020, 2019 and 2018, respectively.

11. Goodwill and Other Intangible Assets

At December 31, 2020, the carrying amount of goodwill of $267.4 million was comprised of $39.6 million recorded in connection with the BORO Acquisition and $227.8 million recorded in connection with the completion of the merger with PCC (the "PlainsCapital Merger").

Other intangible assets were $20.4 million and $26.7 million at December 31, 2020 and 2019, respectively.

The Company performed required annual impairment tests of its goodwill and other intangible assets having an indefinite useful life as of October 1st for each of its reporting units. At October 1, 2020, the Company determined that the estimated fair value of each of its reporting units exceeded its carrying value. The Company estimated the fair values of its reporting units based on both a market and income approach using historical, normalized actual and forecasted results. Based on this evaluation, at December 31, 2020, the Company concluded that the goodwill and other identifiable intangible assets were fully realizable.

The Company's evaluation includes multiple assumptions, including estimated discounted cash flows and other estimates that may change over time. If future discounted cash flows become less than those projected by the Company, future impairment charges may become necessary that could have a materially adverse impact on the Company's results of operations and financial condition. As quoted market prices in active stock markets are relevant evidence of fair value, a significant decline in the Company's common stock trading price may indicate an impairment of goodwill.

Additionally, given the potential impacts as a result of COVID-19, actual results may differ materially from the Company's current estimates as the scope of COVID-19 evolves or if the duration of business disruptions is longer than currently anticipated. While certain valuation assumptions and judgments may change to account for pandemic-related circumstances, the Company does not anticipate significant changes in methodology used to determine the fair value of its goodwill, intangible assets and other long-lived assets. The Company will continue to monitor developments regarding the COVID-19 pandemic and measures implemented in response to the pandemic, market capitalization, overall economic conditions and any other triggering events or circumstances that may indicate an impairment in the future.

The carrying value of intangible assets subject to amortization was as follows (in thousands).

December 31, 2020	Estimated Useful Life (Years)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposits	4 - 12	$ 48,930	$ (40,997)	$ 7,933
Trademarks and trade names	20	16,500	(7,563)	8,937
Noncompete agreements	4	4,310	(4,310)	—
Customer contracts and relationships	12 - 14	15,300	(11,806)	3,494
		$ 85,040	$ (64,676)	$ 20,364

December 31, 2019	Estimated Useful Life (Years)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposits	4 - 12	$ 48,930	$ (36,576)	$ 12,354
Trademarks and trade names	20	16,500	(6,812)	9,688
Noncompete agreements	4	4,310	(4,310)	—
Customer contracts and relationships	12 - 14	15,300	(10,676)	4,624
		$ 85,040	$ (58,374)	$ 26,666

Amortization expense related to intangible assets during 2020, 2019 and 2018 was $6.3 million, $7.5 million and $8.0 million, respectively.

The estimated aggregate future amortization expense for intangible assets at December 31, 2020 is as follows (in thousands).

2021	$ 5,080
2022	3,967
2023	2,860
2024	1,826
2025	1,028
Thereafter	5,603
	$ 20,364

12. Mortgage Servicing Rights

The following tables present the changes in fair value of the Company's MSR asset, and other information related to the serviced portfolio (dollars in thousands).

	Year Ended December 31, 2020	2019	2018
Balance, beginning of year	$ 55,504	$ 66,102	$ 54,714
Additions	162,914	13,755	25,028
Sales	(36,750)	—	(9,303)
Changes in fair value:			
Due to changes in model inputs or assumptions (1)	(27,261)	(16,054)	159
Due to customer payoffs	(10,665)	(8,299)	(4,496)
Balance, end of year	$ 143,742	$ 55,504	$ 66,102

	December 31, 2020	2019
Mortgage loans serviced for others (2)	$ 14,643,623	$ 4,948,441
MSR asset as a percentage of serviced mortgage loans	0.98 %	1.12 %

(1) Primarily represents normal customer payments, changes in discount rates and prepayment speed assumptions, which are primarily affected by changes in interest rates and the refinement of other MSR model assumptions.
(2) Represents unpaid principal balance of mortgage loans serviced for others.

The key assumptions used in measuring the fair value of the Company's MSR asset were as follows.

	December 31, 2020	2019
Weighted average constant prepayment rate	12.15 %	13.16 %
Weighted average discount rate	14.60 %	11.14 %
Weighted average life (in years)	6.3	6.0

A sensitivity analysis of the fair value of the Company's MSR asset to certain key assumptions is presented in the following table (in thousands).

	December 31, 2020	2019
Constant prepayment rate:		
Impact of 10% adverse change	$ (5,639)	$ (3,072)
Impact of 20% adverse change	(11,164)	(5,943)
Discount rate:		
Impact of 10% adverse change	(6,435)	(2,094)
Impact of 20% adverse change	(12,287)	(4,028)

This sensitivity analysis presents the effect of hypothetical changes in key assumptions on the fair value of the MSR asset. The effect of such hypothetical changes in assumptions generally cannot be extrapolated because the relationship of the change in one key assumption to the change in the fair value of the MSR asset is not linear. In addition, in the analysis, the impact of an adverse change in one key assumption is calculated independent of any impact on other assumptions. In reality, changes in one assumption may change another assumption.

Contractually specified servicing fees, late fees and ancillary fees earned of $35.4 million, $25.3 million and $23.3 million during 2020, 2019 and 2018, respectively, were included in other noninterest income within the consolidated statements of operations.

13. Deposits

Deposits are summarized as follows (in thousands).

	December 31, 2020	December 31, 2019
Noninterest-bearing demand	$ 3,612,384	$ 2,769,556
Interest-bearing:		
Demand accounts	2,399,341	1,881,614
Brokered - demand	282,426	—
Money market	2,716,878	2,641,116
Brokered - money market	124,243	5,000
Savings	276,327	199,076
Time	1,506,435	1,505,375
Brokered - time	324,285	30,477
	$ 11,242,319	$ 9,032,214

At December 31, 2020, deposits include $1.1 billion of time deposit accounts that meet or exceed the FDIC insurance limit of $250,000. Scheduled maturities of interest-bearing time deposits at December 31, 2020 are as follows (in thousands).

2021	$ 1,600,039
2022	148,404
2023	49,026
2024	22,091
2025 and thereafter	11,160
	$ 1,830,720

14. Short-term Borrowings

Short-term borrowings are summarized as follows (in thousands).

	December 31, 2020	December 31, 2019
Federal funds purchased	$ 180,325	$ 81,625
Securities sold under agreements to repurchase	237,856	612,125
Federal Home Loan Bank	—	600,000
Short-term bank loans	—	111,000
Commercial paper	277,617	19,260
	$ 695,798	$ 1,424,010

Federal funds purchased and securities sold under agreements to repurchase generally mature daily, on demand, or on some other short-term basis. The Bank and the Hilltop Broker-Dealers execute transactions to sell securities under agreements to repurchase with both customers and other broker-dealers. Securities involved in these transactions are held by the Bank, the Hilltop Broker-Dealers or a third-party dealer.

Information concerning federal funds purchased and securities sold under agreements to repurchase is shown in the following tables (dollars in thousands).

	Year Ended December 31,		
	2020	2019	2018
Average balance during the year	$ 509,577	$ 605,858	$ 701,622
Average interest rate during the year	0.89 %	2.48 %	1.96 %
Maximum month-end balance during the year	$ 714,507	$ 693,750	$ 849,568

	December 31,	
	2020	2019
Average interest rate at end of year	0.25 %	1.97 %
Securities underlying the agreements at end of year:		
Carrying value	$ 237,913	$ 612,515
Estimated fair value	$ 262,554	$ 661,023

FHLB short-term borrowings mature over terms not exceeding 365 days and are collateralized by FHLB Dallas stock, nonspecified real estate loans and certain specific commercial real estate loans. At December 31, 2020, the Bank had available collateral of $4.4 billion, substantially all of which was blanket collateral. Other information regarding FHLB short-term borrowings is shown in the following tables (dollars in thousands).

	Year Ended December 31,		
	2020	2019	2018
Average balance during the year	$ 38,634	$ 329,356	$ 214,110
Average interest rate during the year	1.63 %	2.16 %	2.09 %
Maximum month-end balance during the year	$ 150,000	$ 700,000	$ 675,000

	December 31,	
	2020	2019
Average interest rate at end of year	— %	1.56 %

The Hilltop Broker-Dealers use short-term bank loans periodically to finance securities owned, margin loans to customers and correspondents, and underwriting activities. Interest on the borrowings varies with the federal funds rate. The weighted average interest rate on the short-term bank loan borrowings at December 31, 2020 and 2019 was 0.00% and 2.52%, respectively.

During 2019, Hilltop Securities initiated two commercial paper programs in the ordinary course of its business of which the net proceeds (after deducting related issuance expenses) from the sale will be used for general corporate purposes, including working capital and the funding of a portion of its securities inventories. The commercial paper notes (“CP Notes”) may be issued with maturities of 14 days to 270 days from the date of issuance. The CP Notes are issued under two separate programs, Series 2019-1 CP Notes and Series 2019-2 CP Notes, in maximum aggregate amounts of $300 million and $200 million, respectively. The CP Notes are not redeemable prior to maturity or subject to voluntary prepayment and do not bear interest, but are sold at a discount to par. The CP Notes are secured by a pledge of collateral owned by Hilltop Securities. As of December 31, 2020, the weighted average maturity of the CP Notes was 146 days at a rate of 1.23%, with a weighted average remaining life of 70 days. At December 31, 2020, the amount outstanding under these secured arrangements was $277.6 million, which was collateralized by securities held for firm accounts valued at $296.3 million.

15. Notes Payable

Notes payable consisted of the following (in thousands).

	December 31, 2020	December 31, 2019
Senior Notes due April 2025, net of discount of $1,063 and $1,232, respectively	$ 148,937	$ 148,768
Subordinated Notes due May 2030, net of discount of $793	49,207	—
Subordinated Notes due May 2035, net of discount of $2,392	147,608	—
FHLB notes, including premium of $0 and $146, respectively	—	28,848
Ventures Management lines of credit	36,235	78,653
	$ 381,987	$ 256,269

Senior Notes

On April 9, 2015, Hilltop completed an offering of $150.0 million aggregate principal amount of its 5% senior notes due 2025 (“Senior Unregistered Notes”) in a private offering that was exempt from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”). The Senior Unregistered Notes were offered within the United States only to qualified institutional buyers pursuant to Rule 144A under the Securities Act, and to persons outside of the United States under Regulation S under the Securities Act. The Senior Unregistered Notes were issued pursuant to an indenture, dated as of April 9, 2015, by and between Hilltop and U.S. Bank National Association, as trustee. The net proceeds from the offering, after deducting estimated fees and expenses and the initial purchasers’ discounts, were approximately $148 million. Hilltop used the net proceeds of the offering to redeem all of Hilltop’s outstanding Non-Cumulative Perpetual Preferred Stock, Series B at an aggregate liquidation value of $114.1 million, plus accrued but unpaid dividends of $0.4 million, and Hilltop utilized the remainder for general corporate purposes. Unamortized debt issuance costs presented as a reduction from the Senior Notes are discussed further in Note 1 to the consolidated financial statements.

In connection with the issuance of the Senior Unregistered Notes, on April 9, 2015, the Company entered into a registration rights agreement with the initial purchasers of the Senior Unregistered Notes. Under the terms of the registration rights agreement, the Company agreed to offer to exchange the Senior Unregistered Notes for notes registered under the Securities Act (the “Senior Registered Notes”). The terms of the Senior Registered Notes are substantially identical to the Senior Unregistered Notes for which they were exchanged (including principal amount, interest rate, maturity and redemption rights), except that the Senior Registered Notes generally are not subject to transfer restrictions. On May 22, 2015 and subject to the terms and conditions set forth in the Senior Registered Notes prospectus, the Company commenced an offer to exchange the Senior Unregistered Notes for Senior Registered Notes. Substantially all of the Senior Unregistered Notes were tendered in the exchange offer, and on June 22, 2015, the Company fulfilled its requirements under the registration rights agreement for the Senior Unregistered Notes by issuing Senior Registered Notes in exchange for the tendered Senior Unregistered Notes. The Senior Registered Notes and the Senior Unregistered Notes that remain outstanding are collectively referred to as the “Senior Notes.”

The Senior Notes bear interest at a rate of 5% per year, payable semi-annually in arrears in cash on April 15 and October 15 of each year. The Senior Notes will mature on April 15, 2025, unless Hilltop redeems the Senior Notes, in whole at any time or in part from time to time, on or after January 15, 2025 (three months prior to the maturity date of the Senior Notes) at its election at a redemption price equal to 100% of the principal amount of the Senior Notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

The indenture contains covenants that limit the Company’s ability to, among other things and subject to certain significant exceptions: (i) dispose of or issue voting stock of certain of the Company’s bank subsidiaries or subsidiaries that own voting stock of the Company’s bank subsidiaries, (ii) incur or permit to exist any mortgage, pledge, encumbrance or lien or charge on the capital stock of certain of the Company’s bank subsidiaries or subsidiaries that own capital stock of the Company’s bank subsidiaries and (iii) sell all or substantially all of the Company’s assets or merge or consolidate with or into other companies. The indenture also provides for certain events of default, which, if any of them occurs, would permit or require the principal amount, premium, if any, and accrued and unpaid interest on the then outstanding Senior Notes to be declared immediately due and payable.

Subordinated Notes

On May 7, 2020, Hilltop completed a public offering of $50 million aggregate principal amount of 5.75% fixed-to-floating rate subordinated notes due May 15, 2030 (the “2030 Subordinated Notes”) and $150 million aggregate principal amount of 6.125% fixed-to-floating rate subordinated notes due May 15, 2035 (the “2035 Subordinated Notes”) (collectively, the “Subordinated Notes”). The price for the Subordinated Notes was 100% of the principal amount of the Subordinated Notes. The net proceeds from the offering, after deducting underwriting discounts and fees and expenses of $3.4 million, were $196.6 million.

The 2030 Subordinated Notes and the 2035 Subordinated Notes will mature on May 15, 2030 and May 15, 2035, respectively. Hilltop may redeem the Subordinated Notes, in whole or in part, from time to time, subject to obtaining regulatory approval, beginning with the interest payment date of May 15, 2025 for the 2030 Subordinated Notes and beginning with the interest payment date of May 15, 2030 for the 2035 Subordinated Notes, in each case at a redemption price equal to 100% of the principal amount of the Subordinated Notes being redeemed plus accrued and unpaid interest to but excluding the date of redemption.

The 2030 Subordinated Notes bear interest at the rate of 5.75% per year, payable semi-annually in arrears commencing on November 15, 2020. The interest rate for the 2030 Subordinated Notes will reset quarterly beginning May 15, 2025 to an interest rate, per year, equal to the then-current benchmark rate, which is expected to be three-month term Secured Overnight Financing Rate (“SOFR rate”), plus 5.68%, payable quarterly in arrears. The 2035 Subordinated Notes bear interest at the rate of 6.125% per year, payable semi-annually in arrears commencing on November 15, 2020. The interest rate for the 2035 Subordinated Notes will reset quarterly beginning May 15, 2030 to an interest rate, per year, equal to the then-current benchmark rate, which is expected to be three-month term SOFR rate plus 5.80%, payable quarterly in arrears.

Federal Home Loan Bank notes

The FHLB notes, as well as other borrowings from the FHLB, are collateralized by FHLB stock, a blanket lien on commercial and real estate loans, as well as by the amount of securities that are in safekeeping at the FHLB.

Ventures Management Lines of Credit

At December 31, 2020, Ventures Management’s ABAs had combined available lines of credit totaling $170.0 million, $80.0 million of which was with a single unaffiliated bank and $90.0 million of which was with the Bank. At December 31, 2020, Ventures Management had outstanding borrowings of $47.5 million, $11.3 million of which was with the Bank with stated interest rates of the greater of a calculated index rate on mortgage notes or 3.13% to 3.75%. The weighted average interest rate of these lines of credit at December 31, 2020 was 3.27%. The Ventures Management lines of credit are collateralized by mortgage notes, and the loan agreements relating to the lines of credit contain various financial and other covenants which must be maintained until all indebtedness to the financial institution is repaid.

Scheduled Maturities

Scheduled maturities for notes payable outstanding at December 31, 2020 are as follows (in thousands).

2021	$ 36,235
2022	—
2023	—
2024	—
2025	150,000
Thereafter	200,000
	$ 386,235

16. Leases

Hilltop and its subsidiaries lease space, primarily for corporate offices, branch facilities and automated teller machines, under both operating and finance leases. Certain of the Company's leases have options to extend, with the longest extension option being ten years, and some of the Company's leases include options to terminate within one year. The Company's leases contain customary restrictions and covenants. The Company has certain intercompany leases and subleases between its subsidiaries, and these transactions and balances have been eliminated in consolidation and are not reflected in the tables and information presented below.

Supplemental balance sheet information related to finance leases is as follows (in thousands).

	Year Ended December 31, 2020	Year Ended December 31, 2019
Finance leases:		
Premises and equipment	$ 7,780	$ 7,780
Accumulated depreciation	(4,768)	(4,178)
Premises and equipment, net	$ 3,012	$ 3,602

Operating lease rental cost and finance lease amortization of ROU assets is included within occupancy and equipment, net in the consolidated statements of operations. Finance lease interest expense is included within other interest expense in the consolidated statements of operations. The Company does not generally enter into leases which contain variable payments, other than due to the passage of time. The components of lease costs, including short-term lease costs, are as follows (in thousands).

	Year Ended December 31, 2020	Year Ended December 31, 2019
Operating lease cost	$ 41,903	$ 44,331
Less operating lease and sublease income	(1,676)	(2,657)
Net operating lease cost	$ 40,227	$ 41,674
Finance lease cost:		
Amortization of ROU assets	$ 590	$ 590
Interest on lease liabilities	561	596
Total finance lease cost	$ 1,151	$ 1,186

Supplemental cash flow information related to leases is as follows (in thousands):

	Year Ended December 31, 2020	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 31,850	$ 37,527
Operating cash flows from finance leases	561	587
Financing cash flows from finance leases	636	603
Right-of-use assets obtained in exchange for new lease obligations:		
Operating leases	$ 11,723	$ 27,055
Finance leases	—	—

Information regarding the lease terms and discount rates of the Company's leases is as follows.

	December 31, 2020		December 31, 2019	
Lease Classification	Weighted Average Remaining Lease Term (Years)	Weighted Average Discount Rate	Weighted Average Remaining Lease Term (Years)	Weighted Average Discount Rate
Operating	5.5	4.67 %	5.9	5.29 %
Finance	5.6	4.81 %	6.5	4.79 %

Maturities of lease liabilities at December 31, 2020, under lease agreements that had commenced as of or subsequent to January 1, 2019, are presented below (in thousands).

	Operating Leases	Finance Leases
2021	$ 36,132	$ 1,212
2022	28,189	1,241
2023	22,645	1,280
2024	15,395	1,163
2025	11,177	886
Thereafter	29,636	1,411
Total minimum lease payments	143,174	7,193
Less amount representing interest	(17,724)	(2,334)
Lease liabilities	$ 125,450	$ 4,859

As of December 31, 2020, the Company had additional operating leases that have not yet commenced with aggregate future minimum lease payments of approximately $22.9 million. These leases are expected to commence between January 2021 and October 2021 with lease terms ranging from two to eleven years.

17. Junior Subordinated Debentures and Trust Preferred Securities

PCC has four statutory Trusts, three of which were formed under the laws of the state of Connecticut and one of which, PCC Statutory Trust IV, was formed under the laws of the state of Delaware. The Trusts were created for the sole purpose of issuing and selling preferred securities and common securities, using the resulting proceeds to acquire junior subordinated debentures issued by PCC (the "Debentures"). Accordingly, the Debentures are the sole assets of the Trusts, and payments under the Debentures are the sole revenue of the Trusts. All of the common securities are owned by PCC; however, PCC is not the primary beneficiary of the Trusts. Accordingly, the Trusts are not included in the Company's consolidated financial statements.

The Trusts have issued $65,000,000 of floating rate preferred securities and $2,012,000 of common securities and have invested the proceeds from the securities in floating rate Debentures of PCC.

Information regarding the PCC Debentures is shown in the following table (in thousands).

Investor	Issue Date	Amount
PCC Statutory Trust I	July 31, 2001	$ 18,042
PCC Statutory Trust II	March 26, 2003	$ 18,042
PCC Statutory Trust III	September 17, 2003	$ 15,464
PCC Statutory Trust IV	February 22, 2008	$ 15,464

The stated term of the Debentures is 30 years with interest payable quarterly. The rate on the Debentures, which resets quarterly, is 3-month LIBOR plus an average spread of 3.22%. The total average interest rate at December 31, 2020 was 3.45%. The term, rate and other features of the preferred securities are the same as the Debentures. PCC's obligations under the Debentures and related documents, taken together, constitute a full and unconditional guarantee of the Trust's obligations under the preferred securities.

18. Income Taxes

The significant components of the income tax provision are as follows (in thousands).

	Year Ended December 31, 2020	2019	2018
Current:			
Federal	$ 97,338	$ 58,562	$ 18,977
State	19,150	9,215	2,241
	116,488	67,777	21,218
Deferred:			
Federal	$ 13,325	$ (2,690)	$ 11,153
State	3,258	(1,373)	1,856
	16,583	(4,063)	13,009
	$ 133,071	$ 63,714	$ 34,227

The income tax provision differs from the amount that would be computed by applying the statutory Federal income tax rate to income before income taxes as a result of the following (in thousands). The applicable corporate federal income tax rates were 21% for all periods presented.

	Year Ended December 31, 2020	2019	2018
Computed tax at federal statutory rate	$ 118,629	$ 59,392	$ 32,572
Tax effect of:			
Nondeductible expenses	2,304	2,681	1,373
State income taxes	17,702	6,195	3,236
Tax-exempt income, net	(1,706)	(1,727)	(1,432)
Minority interest	(4,587)	(1,614)	(900)
Other	729	(1,213)	(622)
	$ 133,071	$ 63,714	$ 34,227

The components of the tax effects of temporary differences that give rise to the net deferred tax asset included in other assets within the consolidated balance sheets are as follows (in thousands).

	December 31, 2020	2019
Deferred tax assets:		
Net operating and built-in loss carryforward	$ 5,736	$ 7,823
Purchase accounting adjustment - loans	11,814	15,850
Allowance for credit losses	35,542	14,796
Compensation and benefits	22,513	17,723
Legal and other reserves	7,097	1,272
Foreclosed property	1,913	5,456
Operating lease liabilities	29,348	29,125
Other	9,717	6,475
	123,680	98,520
Deferred tax liabilities:		
Premises and equipment	20,076	10,079
Intangible assets	4,518	6,098
Derivatives	17,688	4,342
Loan servicing	34,868	13,278
Operating lease ROU assets	24,755	26,498
Other	8,015	5,251
	109,920	65,546
Net deferred tax asset	$ 13,760	$ 32,974

The Company’s effective tax rate was 23.6%, 22.5% and 22.1% during 2020, 2019 and 2018, respectively. The increase in the effective tax rate during 2020 was primarily attributable to the percentage of income at subsidiaries with higher state effective tax rates, while the effective tax rates for 2019 and 2018 approximated statutory rates and included the effect of investments in tax-exempt instruments, offset by nondeductible expenses.

At December 31, 2020 and 2019, the Company had net operating loss carryforwards for Federal income tax purposes of $2.7 million and $12.2 million, respectively (or $0.6 million and $2.4 million, respectively, on a tax effected basis at applicable rates for respective tax years). The net operating loss carryforwards are subject to an annual Section 382 limitation on their usage. These net operating loss carryforwards expire starting in 2034. The Company expects to realize its current deferred tax asset for these net operating loss carryforwards through the implementation of certain tax planning strategies, core earnings, and reversal of timing differences. At December 31, 2020, the Company also had a recognized built-in loss (“RBIL”) carryover of $20.5 million from the ownership change resulting from the SWS Merger. These RBILs that were recognized during a five year recognition period before January 1, 2020 are subject to the annual Section 382 limitation rules similar to the Company’s net operating loss carryforwards. The RBILs are expected to be fully realized prior to any expiration.

Based on the Company’s evaluation of its deferred tax assets, management determined that no valuation allowance against its gross deferred tax assets was necessary at December 31, 2020 or 2019.

GAAP requires the measurement of uncertain tax positions. Uncertain tax positions are the difference between a tax position taken, or expected to be taken, in a tax return and the benefit recognized for accounting purposes. At December 31, 2020 and 2019, the total amount of gross unrecognized tax benefits was $3.8 million and $2.8 million, respectively, of which $3.0 million and $2.1 million, respectively, if recognized, would favorably impact the Company’s effective tax rate.

The aggregate changes in gross unrecognized tax benefits, which excludes interest and penalties, are as follows (in thousands).

	Year Ended December 31,		
	2020	2019	2018
Balance, beginning of year	$ 2,808	$ 3,056	$ 1,574
Increases related to tax positions taken during a prior year	327	317	770
Decreases related to tax positions taken during a prior year	—	(423)	—
Increases related to tax positions taken during the current year	1,017	288	712
Decreases related to expiration of the statute of limitations	(374)	(430)	—
Balance, end of year	$ 3,778	$ 2,808	$ 3,056

Specific positions that may be resolved include issues involving apportionment and tax credits. At December 31, 2020, the unrecognized tax benefit is a component of taxes receivable, which is included in other assets within the consolidated balance sheet.

The Company files income tax returns in U.S. federal and numerous state jurisdictions. The Company is subject to tax examinations in numerous jurisdictions in the United States until the applicable statute of limitations expires. The Company is no longer subject to U.S. federal tax examinations for tax years prior to 2017. The Company is open for various state tax examinations for tax years 2016 and later.

19. Employee Benefits

Hilltop and its subsidiaries have benefit plans that provide for elective deferrals by employees under Section 401(k) of the Internal Revenue Code. Employee contributions are determined by the level of employee participation and related salary levels per Internal Revenue Service regulations. Hilltop and its subsidiaries match a portion of employee contributions based on the amount of eligible employees’ contributions and salaries. The amount charged to operating expense for these matching contributions totaled $17.7 million, $15.5 million and $14.8 million during 2020, 2019 and 2018, respectively.

In July 2020, pursuant to stockholders’ approval, the Company adopted the Hilltop Holdings Inc. Employee Stock Purchase Plan (the “ESPP”) to provide a means for eligible employees of the Company to purchase shares of Hilltop common stock at a discounted price by accumulating funds, normally through payroll deductions and is intended to qualify under Section 423 of the Internal Revenue Code. Participating employees may purchase shares of common stock at 90% of the fair market value on the last day of each quarterly offering period. The initial offering period commenced on January 1, 2021.

Effective upon the completion of the PlainsCapital Merger, the Company recorded a liability associated with separate retention agreements originally entered into between Hilltop and two executive officers. At December 31, 2020 and 2019, the recorded liability, including interest, was $2.6 million and related to a single executive officer.

The Bank purchased $15.0 million of flexible premium universal life insurance in 2001 to help finance the annual expense incurred in providing various employee benefits. At December 31, 2020 and 2019, the carrying value of the policies included in other assets was $26.8 million and $26.2 million, respectively. During each of 2020, 2019 and 2018, the Bank recorded income of $0.5 million, $1.0 million and $0.6 million, respectively, related to the policies that was reported in other noninterest income within the consolidated statement of operations.

Deferred Compensation Plan

As a result of the SWS Merger, the Company assumed a deferred compensation plan (the “SWS Plan”) that allows former SWS eligible officers and employees to defer a portion of their bonus compensation and commissions. The SWS Plan matched 15% of the deferrals made by participants up to a predetermined limit through matching contributions that vest ratably over four years. Pursuant to the terms of the SWS Plan, the trustee periodically purchased the former SWS common stock in the open market. As a result of the SWS Merger, the former SWS common shares were converted into Hilltop common stock based on the terms of the merger agreement. No further contributions can be made to this plan.

The assets of the SWS Plan are held in a rabbi trust and primarily include investments in company-owned life insurance (“COLI”) and Hilltop common stock. These assets are consolidated with those of the Company. Investments in COLI are carried at the cash surrender value of the insurance policies and recorded in other assets within the consolidated balance sheet at December 31, 2020 and 2019, respectively. Investments in Hilltop common stock, which are carried at cost, and the corresponding liability related to the deferred compensation plan are presented as components of stockholders’ equity as employee stock trust and deferred compensation employee stock trust, net, respectively, at December 31, 2020 and 2019, respectively.

20. Related Party Transactions

Jeremy B. Ford, a director and the President and Chief Executive Officer of Hilltop, is the beneficiary of a trust that owns a 49% limited partnership interest in Diamond A Financial, L.P., which owned 18.9% of the outstanding Hilltop common stock at December 31, 2020.

Jeremy B. Ford is the son of Gerald J. Ford. Corey G. Prestidge, Hilltop’s General Counsel and Secretary, is the son-in-law of Gerald J. Ford. Accordingly, Messrs. Jeremy Ford and Corey Prestidge are brothers-in-law.

In the ordinary course of business, the Bank has granted loans to certain directors, executive officers and their affiliates (collectively referred to as related parties) totaling $0.6 million and $5 thousand at December 31, 2020 and 2019, respectively. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability. For such loans during 2020, principal additions and payments were $0.6 million and $2 thousand, respectively.

At December 31, 2020 and 2019, the Bank held deposits of related parties of $154.1 million and $141.2 million, respectively.

A related party is the lessor in an operating lease with Hilltop. Hilltop’s minimum payment under the lease is $0.5 million annually through 2028, for an aggregate remaining obligation of $4.2 million at December 31, 2020.

The Bank purchased loans from a company for which a related party served as a director, president and chief executive officer. At December 31, 2020 and 2019, the outstanding balance of the purchased loans was $0.5 million and $0.7 million, respectively. The loans were purchased with recourse in the ordinary course of business and the related party had no direct financial interest in the transaction.

Hilltop Plaza Investment

On July 31, 2018, Hillcrest Land LLC purchased approximately 1.7 acres of land in the City of University Park, Texas for $38.5 million. Hillcrest Land LLC is owned equally between Hilltop Investments I, LLC, a wholly owned entity of Hilltop, and Diamond Ground, LLC, an affiliate of Mr. Gerald J. Ford. Each of Hilltop Investments I, LLC and Diamond Ground, LLC contributed $19.3 million to Hillcrest Land LLC to complete the purchase. As the voting rights of Hillcrest Land LLC are shared equally between the Company and Diamond Ground, LLC, there is no primary beneficiary, and Diamond Ground, LLC's interest in Hillcrest Land LLC has been reflected as a noncontrolling interest in the Company's consolidated financial statements. Therefore, the Company has consolidated Hillcrest Land LLC under the VIE model according to the "most-closely associated" test. The purchased land is included within premises and equipment, net in the consolidated balance sheets. Any income (loss) associated with Hillcrest Land LLC is included within other noninterest income in the consolidated statements of operations. Trusts for which Jeremy Ford and the wife of Corey Prestidge are a beneficiary own 10.2% and 10.1%, respectively, of Diamond Ground, LLC.

In connection with the purchase of the land, Hillcrest Land LLC entered into a 99-year ground lease of the land with three tenants-in-common: SPC Park Plaza Partners LLC ("Park Plaza LLC"), an unaffiliated entity which received an undivided 50% leasehold interest; HTH Project LLC, a wholly owned subsidiary of Hilltop, which received an undivided 25% leasehold interest; and Diamond Hillcrest, LLC ("Diamond Hillcrest"), an entity owned by Mr. Gerald J. Ford, which received an undivided 25% leasehold interest (collectively, the "Co-Owners"). The ground lease is triple net. The base rent from the Co-Owners under the ground lease commences 18 months after the ground lease was signed at $1.8 million per year and increases 1.0% per year each January 1 thereafter. The ground lease was classified as an operating lease under ASC 840, and the accounting commencement date was determined to be July 31, 2018, the date the land was available to the Co-Owners.

Concurrent with the ground lease, the Co-Owners entered into an agreement to purchase the improvements of a mixed-use project containing a six-story building ("Hilltop Plaza"). HTH Project LLC and Diamond Hillcrest each own an undivided 25% interest in Hilltop Plaza. Park Plaza LLC owns the remaining undivided 50% interest in Hilltop Plaza. Park Plaza LLC has agreed to serve as the Co-Owner property manager under the Co-Owners Agreement; however, certain actions require unanimous approval of all Co-Owners. Hilltop Plaza was funded through a $41.0 million construction loan from an unaffiliated third party bank, as well as cash contributions of $5.3 million from each of HTH Project LLC and Diamond Hillcrest. HTH Project LLC's undivided interest in Hilltop Plaza is accounted for as an equity method investment as the tenants-in-common have joint control over decisions regarding Hilltop Plaza. The investment is included within other assets in the consolidated balance sheets and any income (loss) is included within other noninterest income in the consolidated statements of operations.

Hilltop and the Bank entered into leases for a significant portion of the total rentable corporate office space in Hilltop Plaza which serves as the headquarters for both companies. Affiliates of Mr. Gerald J. Ford also entered into leases for office space in the building. The two separate 129-month office and retail leases of Hilltop and the Bank, respectively, have combined total base rent of approximately $35 million with the first nine months of rent abated. The accounting commencement date of both leases was determined to be June 20, 2019, the date the building was delivered in order for tenant improvement work to commence. The combined operating lease liability, net of lease incentives, recognized during the second quarter of 2019 as a result of the commencement of these leases was $18.9 million. During 2018, the office and retail leases were considered under the build-to-suit provisions of ASC 840, and the Company was determined to be the accounting owner of the project as its affiliate, HTH Project LLC, has an equity investment in the project. As such, the assets of Hilltop Plaza were recognized during the construction period through December 31, 2018, as costs were incurred to construct the asset, with a corresponding liability representing the costs paid for by the lessor (the Co-Owners). At December 31, 2018, the $27.8 million of costs incurred to date were included within premises and equipment and other liabilities, respectively, in the consolidated balance sheets. The Company reassessed its accounting ownership of the Hilltop Plaza assets under construction as of January 1, 2019, under the build-to-suit provisions of the newly adopted ASC 842, *Leases* and concluded it was not the accounting owner. As such, the assets and liabilities of the project were derecognized on January 1, 2019, with the $1.4 million offset representing deferred expenses recognized on the date through December 31, 2018, recorded as an increase to retained earnings.

All intercompany transactions associated with the Hilltop Plaza investment and the related transactions discussed above are eliminated in consolidation.

21. Commitments and Contingencies

During 2020, the Bank acted as agent on behalf of certain correspondent banks in the purchase and sale of federal funds that aggregated to $2.5 million and zero at December 31, 2020 and 2019, respectively.

Legal Matters

The Company is subject to loss contingencies related to litigation, claims, investigations and legal and administrative cases and proceedings arising in the ordinary course of business. The Company evaluates these contingencies based on information currently available, including advice of counsel. The Company establishes accruals for those matters when a loss contingency is considered probable and the related amount is reasonably estimable. Any accruals are periodically reviewed and may be adjusted as circumstances change. A portion of the Company's exposure with respect to loss contingencies may be offset by applicable insurance coverage. In determining the amounts of any accruals or estimates of possible loss contingencies, the Company does not take into account the availability of insurance coverage. When it is practicable, the Company estimates loss contingencies for possible litigation and claims, whether or not there is an accrued probable loss. When the Company is able to estimate such probable losses, and when it estimates that it is reasonably possible it could incur losses in excess of amounts accrued, the Company is required to make a disclosure of the aggregate estimation. As available information changes, however, the matters for which the Company is able to estimate, as well as the estimates themselves, will be adjusted accordingly.

Assessments of litigation and claims exposures are difficult due to many factors that involve inherent unpredictability. Those factors include the following: the varying stages of the proceedings, particularly in the early stages; unspecified, unsupported, or uncertain damages; damages other than compensatory, such as punitive damages; a matter presenting meaningful legal uncertainties, including novel issues of law; multiple defendants and jurisdictions; whether discovery has begun or is complete; whether meaningful settlement discussions have commenced; and whether the claim involves a class action and if so, how the class is defined. As a result of some of these factors, the Company may be unable to estimate reasonably possible losses with respect to some or all of the pending and threatened litigation and claims asserted against the Company.

The Company is involved in information-gathering requests and investigations (both formal and informal), as well as reviews, examinations and proceedings (collectively, "Inquiries") by various governmental regulatory agencies, law enforcement authorities and self-regulatory bodies regarding certain of its businesses, business practices and policies, as well as the conduct of persons with whom it does business. Additional Inquiries will arise from time to time. In connection with those Inquiries, the Company receives document requests, subpoenas and other requests for information. The Inquiries could develop into administrative, civil or criminal proceedings or enforcement actions that could result in consequences that have a material effect on the Company's consolidated financial position, results of operations or cash flows as a whole. Such consequences could include adverse judgments, findings, settlements, penalties, fines, orders, injunctions, restitution, or alterations in the Company's business practices, and could result in additional expenses and collateral costs, including reputational damage.

While the final outcome of litigation and claims exposures or of any Inquiries is inherently unpredictable, management is currently of the opinion that the outcome of pending and threatened litigation and Inquiries will not, except related to specific matters disclosed above, have a material effect on the Company's business, consolidated financial position, results of operations or cash flows as a whole. However, in the event of unexpected future developments, it is reasonably possible that an adverse outcome in any matter, including the matters discussed above, could be material to the Company's business, consolidated financial position, results of operations or cash flows for any particular reporting period of occurrence.

Indemnification Liability Reserve

The mortgage origination segment may be responsible to agencies, investors, or other parties for errors or omissions relating to its representations and warranties that each loan sold meets certain requirements, including representations as to underwriting standards and the validity of certain borrower representations in connection with the loan. If determined to be at fault, the mortgage origination segment either repurchases the affected loan from or indemnifies the claimant against loss. The mortgage origination segment has established an indemnification liability reserve for such probable losses.

Generally, the mortgage origination segment first becomes aware that an agency, investor, or other party believes a loss has been incurred on a sold loan when it receives a written request from the claimant to repurchase the loan or reimburse the claimant's losses. Upon completing its review of the claimant's request, the mortgage origination segment establishes a specific claims reserve for the loan if it concludes its obligation to the claimant is both probable and reasonably estimable.

An additional reserve has been established for probable agency, investor or other party losses that may have been incurred, but not yet reported to the mortgage origination segment based upon a reasonable estimate of such losses. Factors considered in the calculation of this reserve include, but are not limited to, the total volume of loans sold exclusive of specific claimant requests, actual claim settlements and the severity of estimated losses resulting from future claims, and the mortgage origination segment's history of successfully curing defects identified in claim requests. In addition, the mortgage origination segment has considered that GNMA, FNMA and FHLMC have imposed certain restrictions on loans the agencies will accept under a forbearance agreement resulting from the COVID-19 pandemic, which could increase the magnitude of indemnification losses on these loans.

While the mortgage origination segment's sales contracts typically include borrower early payment default repurchase provisions, these provisions have not been a primary driver of claims to date, and therefore, are not a primary factor considered in the calculation of this reserve.

At December 31, 2020 and 2019, the mortgage origination segment's indemnification liability reserve totaled $21.5 million and $11.8 million, respectively. The provision for indemnification losses was $11.2 million, $3.1 million, and $3.2 million during 2020, 2019, and 2018, respectively.

The following tables provide for a rollforward of claims activity for loans put-back to the mortgage origination segment based upon an alleged breach of a representation or warranty with respect to a loan sold and related indemnification liability reserve activity (in thousands).

	Representation and Warranty Specific Claims Activity - Origination Loan Balance Year Ended December 31,		
	2020	2019	2018
Balance, beginning of year	$ 32,144	$ 33,784	$ 33,702
Claims made	17,429	20,054	22,156
Claims resolved with no payment	(7,778)	(14,154)	(13,169)
Repurchases	(11,588)	(6,170)	(8,250)
Indemnification payments	(122)	(1,370)	(655)
Balance, end of year	$ 30,085	$ 32,144	$ 33,784

	Indemnification Liability Reserve Activity Year Ended December 31,		
	2020	2019	2018
Balance, beginning of year	$ 11,776	$ 10,701	$ 23,472
Additions for new sales	9,991	3,116	3,170
Repurchases	(768)	(495)	(612)
Early payment defaults	(624)	(380)	(368)
Indemnification payments (1)	(39)	(352)	(13,687)
Change in reserves for loans sold in prior years	1,195	(814)	(1,274)
Balance, end of year	$ 21,531	$ 11,776	$ 10,701

	December 31,	
	2020	2019
Reserve for Indemnification Liability:		
Specific claims	$ 961	$ 1,071
Incurred but not reported claims	20,570	10,705
Total	$ 21,531	$ 11,776

(1) Indemnification payments in 2018 included $13.5 million related to agreements with the DOJ and HUD in exchange for release of any civil claims related to certain loans originated by PrimeLending. These claims were included in incurred but not reported claims in prior periods.

Although management considers the total indemnification liability reserve to be appropriate, there may be changes in the reserve over time to address incurred losses due to unanticipated adverse changes in the economy and historical loss patterns, discrete events adversely affecting specific borrowers or industries, and/or actions taken by institutions or investors. The impact of such matters is considered in the reserving process when probable and estimable.

Other Contingencies

As discussed in Note 19 to the consolidated financial statements, effective upon completion of the PlainsCapital Merger, Hilltop entered into separate retention agreements with certain executive officers. As of December 31, 2020, a single retention agreement remains, with an initial term of two years (with automatic one-year renewals at the end of the first year and each anniversary thereof). This retention agreement provides for severance pay benefits if the executive officer's employment is terminated without "cause".

In addition to this retention agreement, Hilltop and its subsidiaries maintain employment contracts with certain officers that provide for benefits in the event of a "change in control" as defined in these agreements.

22. Financial Instruments with Off-Balance Sheet Risk

Banking

The Bank is 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 and standby letters of credit that involve varying degrees of credit and interest rate risk in excess of the amount recognized in the consolidated financial statements. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received. The contract amounts of those instruments reflect the extent of involvement (and therefore the exposure to credit loss) the Bank has in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer provided that the terms established in the contract are met. Commitments generally have fixed expiration dates and may require payment of fees. Because some commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan commitments to customers.

In the aggregate, the Bank had outstanding unused commitments to extend credit of $1.9 billion at December 31, 2020 and outstanding financial and performance standby letters of credit of $91.5 million at December 31, 2020.

The Bank uses the same credit policies in making commitments and standby letters of credit as it does for loans held for investment. The amount of collateral obtained, if deemed necessary, in these transactions is based on management's credit evaluation of the borrower. Collateral held varies but may include real estate, accounts receivable, marketable securities, interest-bearing deposit accounts, inventory, and property, plant and equipment.

Broker-Dealer

In the normal course of business, the Hilltop Broker-Dealers execute, settle, and finance various securities transactions that may expose the Hilltop Broker-Dealers to off-balance sheet risk in the event that a customer or counterparty does not fulfill its contractual obligations. Examples of such transactions include the sale of securities not yet purchased by customers or for the accounts of the Hilltop Broker-Dealers, use of derivatives to support certain non-profit housing organization clients and to hedge changes in the fair value of certain securities, clearing agreements between the Hilltop Broker-Dealers and various clearinghouses and broker-dealers, secured financing arrangements that involve pledged securities, and when-issued underwriting and purchase commitments.

23. Stock-Based Compensation

Since 2012, the Company has issued stock-based incentive awards pursuant to the Hilltop Holdings Inc. 2012 Equity Incentive Plan (the "2012 Plan"). In July 2020, pursuant to stockholders' approval, the Company adopted the Hilltop Holdings Inc. 2020 Equity Incentive Plan (the "2020 Plan"). The 2020 Plan serves as successor to the 2012 Plan. The 2012 Plan and the 2020 Plan are referred to collectively as "the Equity Plans." The Equity Plans provide for the grant of nonqualified stock options, stock appreciation rights, restricted stock, RSUs, performance awards, dividend equivalent rights and other awards to employees of the Company, its subsidiaries and outside directors of the Company. Shares available for grant under the 2012 Plan that were reserved but not issued as of the effective date of the 2020 Plan were added to the reserves of the 2020 Plan. No additional awards may be made under the 2012 Plan, but the 2012 Plan remains in effect as to outstanding awards. Outstanding awards under the Equity Plans continue to be subject to the terms and conditions of the respective Plans. The number of shares authorized for issuance pursuant to awards under the 2020 Plan is 3,650,000 plus any shares that become available upon the forfeiture, expiration, cancellation or settlement in cash awards outstanding under the 2012 Plan as of April 30, 2020. At December 31, 2020, 3,428,547 shares of common stock remained available for issuance pursuant to awards granted under the 2020 Plan, excluding shares that may be delivered pursuant to outstanding awards. Compensation expense related to the Equity Plans was $14.6 million, $11.8 million and $9.1 million during 2020, 2019 and 2018, respectively.

During 2020, 2019 and 2018, Hilltop granted 31,222, 26,659 and 30,400 shares of common stock, respectively, pursuant to the Equity Plans to certain non-employee members of the Company's board of directors for services rendered to the Company.

Restricted Stock Units

The Compensation Committee of the board of directors of the Company issued RSUs to certain employees pursuant to the Equity Plans.

Certain RSUs are subject to time-based vesting conditions and generally provided for a cliff vest on the third anniversary of the grant date, while other RSUs provided for vesting based upon the achievement of certain performance goals over a three-year period subject to service conditions set forth in the award agreements, with associated costs generally recognized on a straight-line basis over the respective vesting periods. The RSUs are not transferable, and the shares of common stock issuable upon conversion of vested RSUs may be subject to transfer restrictions for a period of one year following conversion, subject to certain exceptions. In addition, the applicable RSU award agreements provide for accelerated vesting under certain conditions.

The following table summarizes information about nonvested RSU activity (shares in thousands).

	RSUs	
	Outstanding	Weighted Average Grant Date Fair Value
Balance, December 31, 2017	1,318	$ 20.89
Granted	510	$ 24.00
Vested/Released	(406)	$ 19.92
Forfeited	(152)	$ 20.97
Balance, December 31, 2018	1,270	$ 22.44
Granted	719	$ 20.02
Vested/Released	(496)	$ 18.17
Forfeited	(56)	$ 24.12
Balance, December 31, 2019	1,437	$ 22.64
Granted	777	$ 21.79
Vested/Released	(350)	$ 26.83
Forfeited	(31)	$ 22.38
Balance, December 31, 2020	1,833	$ 21.48

Vested/Released RSUs include an aggregate of 238,914 shares withheld to satisfy employee statutory tax obligations during 2020, 2019 and 2018. Pursuant to certain RSU award agreements, an aggregate of 5,482 vested RSUs at December 31, 2020 require deferral of the settlement in shares and statutory tax obligations to a future date.

During 2020, the Compensation Committee of the board of directors of the Company awarded certain executives and key employees an aggregate of 763,140 RSUs pursuant to the Equity Plans. At December 31, 2020, 636,208 of these RSUs are subject to time-based vesting conditions and generally cliff vest on the third anniversary of the grant date, and 122,232 of these outstanding RSUs will cliff vest based upon the achievement of certain performance goals over a three-year period.

At December 31, 2020, in the aggregate, 1,543,756 of the RSUs are subject to time-based vesting conditions and generally cliff vest on the third anniversary of the grant date, and 289,493 outstanding RSUs cliff vest based upon the achievement of certain performance goals over a three-year period. At December 31, 2020, unrecognized compensation expense related to outstanding RSUs of $20.1 million is expected to be recognized over a weighted average period of 1.49 years.

24. Regulatory Matters

Banking and Hilltop

PlainsCapital, which includes the Bank and PrimeLending, and Hilltop are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory — and possibly additional discretionary — actions by regulators that, if undertaken, could have a direct, material effect on the consolidated financial statements. The regulations require PlainsCapital and Hilltop to meet specific capital adequacy guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company performs reviews of the classification and calculation of risk-weighted assets to ensure accuracy and compliance with the Basel III regulatory capital requirements as implemented by the Board of Governors of the Federal Reserve System. The capital classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the companies to maintain minimum amounts and ratios (set forth in the following table) of Tier 1 capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of common equity Tier 1, Tier 1 and total capital (as defined) to risk-weighted assets (as defined).

In order to avoid limitations on capital distributions, including dividend payments, stock repurchases and certain discretionary bonus payments to executive officers, Basel III requires banking organizations to maintain a capital conservation buffer above minimum risk-based capital requirements measured relative to risk-weighted assets.

In addition, bank holding companies with less than $15 billion in assets as of December 31, 2009 are allowed to include junior subordinated debentures in Tier 1 capital, subject to certain restrictions. However, because Hilltop has grown above $15 billion in assets, if we make an acquisition in the future, the debentures issued to the PCC Statutory Trusts I, II, III and IV (the “Trusts”) may be phased out of Tier 1 and into Tier 2 capital. All of the debentures issued to the Trusts, less the common stock of the Trusts, qualified as Tier 1 capital as of December 31, 2020, under guidance issued by the Board of Governors of the Federal Reserve System.

The following tables show PlainsCapital’s and Hilltop’s actual capital amounts and ratios in accordance with Basel III compared to the regulatory minimum capital requirements including conservation buffer ratio in effect at the end of the period (dollars in thousands). Based on actual capital amounts and ratios shown in the following table, PlainsCapital’s ratios place it in the “well capitalized” (as defined) capital category under regulatory requirements. Actual capital amounts and ratios as of December 31, 2020 reflect PlainsCapital’s and Hilltop’s decision to elect the transition option as issued by the federal banking regulatory agencies in March 2020 that permits banking institutions to mitigate the estimated cumulative regulatory capital effects from CECL over a five-year transitionary period. Capital amounts and ratios in the following table as of December 31, 2019 are presented on a consolidated basis and include discontinued operations and those assets and liabilities classified as discontinued.

	Actual		Minimum Capital Requirements Including Conservation Buffer	To Be Well Capitalized
	Amount	Ratio	Ratio	Ratio
December 31, 2020				
Tier 1 capital (to average assets):				
PlainsCapital	$ 1,385,842	10.44 %	4.0 %	5.0 %
Hilltop	2,111,580	12.64 %	4.0 %	N/A
Common equity Tier 1 capital (to risk-weighted assets):				
PlainsCapital	1,385,842	14.40 %	7.0 %	6.5 %
Hilltop	2,046,580	18.97 %	7.0 %	N/A
Tier 1 capital (to risk-weighted assets):				
PlainsCapital	1,385,842	14.40 %	8.5 %	8.0 %
Hilltop	2,111,580	19.57 %	8.5 %	N/A
Total capital (to risk-weighted assets):				
PlainsCapital	1,470,364	15.27 %	10.5 %	10.0 %
Hilltop	2,409,684	22.34 %	10.5 %	N/A

	Actual		Minimum Capital Requirements Including Conservation Buffer	To Be Well Capitalized
	Amount	Ratio	Ratio	Ratio
December 31, 2019				
Tier 1 capital (to average assets):				
PlainsCapital	$ 1,236,289	11.61 %	4.0 %	5.0 %
Hilltop	1,822,970	12.71 %	4.0 %	N/A
Common equity Tier 1 capital (to risk-weighted assets):				
PlainsCapital	1,236,289	13.45 %	7.0 %	6.5 %
Hilltop	1,776,381	16.70 %	7.0 %	N/A
Tier 1 capital (to risk-weighted assets):				
PlainsCapital	1,236,289	13.45 %	8.5 %	8.0 %
Hilltop	1,822,970	17.13 %	8.5 %	N/A
Total capital (to risk-weighted assets):				
PlainsCapital	1,299,453	14.13 %	10.5 %	10.0 %
Hilltop	1,867,771	17.55 %	10.5 %	N/A

A reconciliation of equity capital to common equity Tier 1, Tier 1 and total capital (as defined) is as follows (in thousands).

	December 31, 2020		December 31, 2019	
	PlainsCapital	Hilltop	PlainsCapital	Hilltop
Total equity capital	$ 1,654,249	$ 2,323,939	$ 1,523,549	$ 2,103,039
Add:				
Net unrealized holding losses (gains) on securities available for sale and held in trust	(17,763)	(17,763)	(9,452)	(11,419)
CECL transition adjustment	22,905	23,842	—	—
Deduct:				
Goodwill and other disallowed intangible assets	(273,330)	(283,187)	(276,249)	(313,756)
Other	(219)	(251)	(1,559)	(1,483)
Common equity Tier 1 capital (as defined)	1,385,842	2,046,580	1,236,289	1,776,381
Add: Tier 1 capital				
Trust preferred securities	—	65,000	—	65,000
Deduct:				
Additional Tier 1 capital deductions	—	—	—	(18,411)
Tier 1 capital (as defined)	1,385,842	2,111,580	1,236,289	1,822,970
Add: Allowable Tier 2 capital				
Allowance for credit losses, including unfunded commitments	120,334	134,853	63,164	63,212
Capital instruments	—	200,000	—	—
Deduct:				
Additional Tier 2 capital deductions	(35,812)	(36,749)	—	(18,411)
Total capital (as defined)	$ 1,470,364	$ 2,409,684	$ 1,299,453	$ 1,867,771

Broker-Dealer

Pursuant to the net capital requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Hilltop Securities has elected to determine its net capital requirement using the alternative method. Accordingly, Hilltop Securities is required to maintain minimum net capital, as defined in Rule 15c3-1 promulgated under the Exchange Act, equal to the greater of $250,000 and $1,000,000, respectively, or 2% of aggregate debit balances, as defined in Rule 15c3-3 promulgated under the Exchange Act. Additionally, the net capital rule of the NYSE provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of the aggregate debit items. Momentum Independent Network follows the primary (aggregate indebtedness) method, as defined in Rule 15c3-1 promulgated under the Exchange Act, which requires the maintenance of the larger of $250,000 or 6-2/3% of aggregate indebtedness.

At December 31, 2020, the net capital position of each of the Hilltop Broker-Dealers was as follows (in thousands).

	Hilltop Securities	Momentum Independent Network
Net capital	$ 291,228	$ 3,220
Less: required net capital	7,045	250
Excess net capital	$ 284,183	$ 2,970
Net capital as a percentage of aggregate debit items	82.7 %	
Net capital in excess of 5% aggregate debit items	$ 273,616	

Under certain conditions, Hilltop Securities may be required to segregate cash and securities in a special reserve account for the benefit of customers under Rule 15c3-3 promulgated under the Exchange Act. Assets segregated for regulatory purposes under the provisions of the Exchange Act are restricted and not available for general corporate purposes. At December 31, 2020 and 2019, the Hilltop Broker-Dealers held cash of $290.4 million and $157.4 million, respectively, segregated in special reserve bank accounts for the benefit of customers. The Hilltop Broker-Dealers were not required to segregate cash or securities in special reserve accounts for the benefit of proprietary accounts of introducing broker-dealers at December 31, 2020.

Mortgage Origination

As a mortgage originator, PrimeLending and its subsidiaries are subject to minimum net worth and liquidity requirements established by HUD and GNMA, as applicable. On an annual basis, PrimeLending and its subsidiaries submit audited financial statements to HUD and GNMA, as applicable, documenting their respective compliance with minimum net worth and liquidity requirements. As of December 31, 2020, PrimeLending and its subsidiaries net worth and liquidity exceeded the amounts required by HUD and GNMA, as applicable.

25. Stockholders' Equity

The Bank is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval. At December 31, 2020, $248.1 million of its earnings was available for dividend declaration without prior regulatory approval.

Dividends

During 2020, 2019 and 2018, the Company declared and paid cash dividends of $0.36, $0.32 and $0.28 per common share, or $32.5 million, $29.6 million and $26.7 million, respectively.

On January 28, 2021, the Company announced that its board of directors declared a quarterly cash dividend of $0.12 per common share, payable on February 26, 2021, to all common stockholders of record as of the close of business on February 15, 2021.

Stock Repurchase Programs

The Company's board of directors has periodically approved stock repurchase programs under which it authorized the Company to repurchase its outstanding common stock. Under the respective stock repurchase program authorized, the Company could repurchase shares in open-market purchases or through privately negotiated transactions as permitted under Rule 10b-18 promulgated under the Exchange Act. The extent to which the Company repurchased its shares and the timing of such repurchases depended upon market conditions and other corporate considerations, as determined by Hilltop's management team. Repurchased shares will be returned to the Company's pool of authorized but unissued shares of common stock.

In January 2018, the Hilltop board of directors authorized a stock repurchase program through January 2019 pursuant to which the Company was originally authorized to repurchase, in the aggregate, up to $50.0 million of its outstanding common stock. In July 2018, the Hilltop board of directors authorized an increase to the aggregate amount of common stock the Company may repurchase under this program to $100.0 million, inclusive of repurchases to offset dilution related to grants of stock-based compensation. During 2018, the Company paid $59.0 million to repurchase an aggregate of 2,729,568 shares of common stock at a weighted average price of $21.61 per share. This stock repurchase program expired in January 2019. The purchases were funded from available cash balances.

In January 2019, the Hilltop board of directors authorized a stock repurchase program through January 2020, pursuant to which the Company was authorized to repurchase, in the aggregate, up to $50.0 million of its outstanding common stock. On August 19, 2019, the Company entered into a Securities Purchase Agreement to purchase 2,175,404 shares of its common stock from Oak Hill Capital Partners III, L.P., Oak Hill Capital Management Partners III, L.P. and Oak Hill Capital Management, LLC (collectively, "Oak Hill Capital"). The Hilltop board of directors, other than Messrs. J. Taylor Crandall and Gerald J. Ford, considered and approved the purchase of the shares of Hilltop common stock from Oak Hill Capital. Hilltop director J. Taylor Crandall is a founding Managing Partner of Oak Hill Capital Management, LLC. The purchase was consummated on August 20, 2019 at a purchase price of $48.4 million, or $22.25 per share. The purchase price per share was determined by the weighted average of the closing prices of Hilltop common stock as reported by the New York Stock Exchange for each trading day commencing on August 12, 2019 and ending on August 16, 2019. The repurchase of shares by Hilltop from Oak Hill Capital fully utilized all remaining availability of the stock repurchase program previously authorized in January 2019.

During 2019, the Company paid $73.4 million to repurchase an aggregate of 3,390,247 shares of common stock at a weighted average price of $21.64 per share. These amounts are inclusive of the repurchase of shares by Hilltop from Oak Hill Capital discussed above. This stock repurchase program expired in January 2020. The purchases were funded from available cash balances.

In January 2020, the Hilltop board of directors authorized a new stock repurchase program through January 2021, pursuant to which the Company is authorized to repurchase, in the aggregate, up to $75.0 million of its outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation. As previously announced on April 30, 2020, in light of the uncertain outlook for 2020 due to the COVID-19 pandemic, Hilltop's board of directors suspended its stock repurchase program. During 2020, prior to its suspension, the Company paid $15.2 million to repurchase an aggregate of 720,901 shares of common stock at a weighted average price of $21.13 per share associated with the stock repurchase program

In January 2021, the Hilltop board of directors authorized a new stock repurchase program through January 2022, pursuant to which the Company is authorized to repurchase, in the aggregate, up to $75.0 million of its outstanding common stock, inclusive of repurchases to offset dilution related to grants of stock-based compensation.

Tender Offer

On September 23, 2020, the Company announced the commencement of a modified "Dutch auction" tender offer to purchase shares of its common stock for an aggregate cash purchase price up to $350 million. On November 17, 2020, the Company completed its tender offer, repurchasing 8,058,947 shares of outstanding common stock at a price of $24.00 per share for a total of $193.4 million excluding fees and expenses. The Company funded the tender offer with cash on hand.

26. Other Noninterest Income and Expense

The following table shows the components of other noninterest income and expense (in thousands).

	Year Ended December 31,		
	2020	2019	2018
Other noninterest income:			
Net gains from trading securities portfolio	$ 121,983	$ 20,521	$ 6,197
Net gains from Hilltop Broker-Dealer structured product and derivative activities	81,111	129,571	41,543
Service charges on depositor accounts	14,845	15,170	14,484
Trust fees	9,804	10,255	9,807
Other	15,862	10,833	18,365
	$ 243,605	$ 186,350	$ 90,396
Other noninterest expense:			
Software and information technology	$ 56,872	$ 50,751	$ 52,882
Mortgage origination and servicing	27,808	19,892	19,705
Brokerage commissions and fees	24,113	20,039	20,674
Unreimbursed loan closing costs	21,696	16,784	16,798
Business development	10,190	12,940	15,853
Amortization of intangible assets	6,301	7,567	8,026
Travel, meals and entertainment	4,804	12,160	11,968
Funding fees	4,461	5,393	5,414
Office supplies	3,953	4,809	5,788
Other	64,560	43,051	55,284
	$ 224,758	$ 193,386	$ 212,392

27. Derivative Financial Instruments

The Company uses various derivative financial instruments to mitigate interest rate risk. The Bank's interest rate risk management strategy involves effectively managing the re-pricing characteristics of certain assets and liabilities to mitigate potential adverse impacts from changes in interest rates on the Bank's net interest margin. Additionally, the Bank manages variability of cash flows associated with its variable rate debt in interest-related cash outflows with interest rate swap contracts. PrimeLending has interest rate risk relative to interest rate lock commitments ("IRLCs") and its inventory of mortgage loans held for sale. PrimeLending is exposed to such interest rate risk from the time an IRLC is made to an applicant to the time the related mortgage loan is sold. To mitigate interest rate risk, PrimeLending executes forward commitments to sell mortgage-backed securities ("MBSs") and Eurodollar futures. Additionally, PrimeLending has interest rate risk relative to its MSR asset and uses derivative instruments, including interest rate swaps and U.S. Treasury bond futures and options, to hedge this risk. The Hilltop Broker-Dealers use forward commitments to both purchase and sell MBSs to facilitate customer transactions and as a means to hedge related exposure to interest rate risk in certain inventory positions. Additionally, Hilltop Securities uses U.S. Treasury bond, Eurodollar futures and municipal market data, or MMD, rate locks to hedge changes in the fair value of its securities.

Non-Hedging Derivative Instruments and the Fair Value Option

As discussed in Note 5 to the consolidated financial statements, the Company has elected to measure substantially all mortgage loans held for sale at fair value under the provisions of the Fair Value Option. The election provides the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without applying hedge accounting provisions. The fair values of PrimeLending's IRLCs and forward commitments are recorded in other assets or other liabilities, as appropriate, and changes in the fair values of these derivative instruments are recorded as a component of net gains from sale of loans and other mortgage production income. These changes in fair value are attributable to changes in the volume of IRLCs, mortgage loans held for sale, commitments to purchase and sell MBSs and MSR assets, and changes in market interest rates. Changes in market interest rates also conversely affect the value of PrimeLending's mortgage loans held for sale and its MSR asset, which are measured at fair value under the Fair Value Option. The effect of the change in market interest rates on PrimeLending's loans held for sale and MSR asset is discussed in Note 12 to the consolidated financial statements. The fair values of the Hilltop Broker-Dealers' and the Bank's derivative instruments are recorded in other assets or other liabilities, as appropriate.

Changes in the fair value of derivatives are presented in the following table (in thousands).

	Year Ended December 31,		
	2020	2019	2018
Increase (decrease) in fair value of derivatives during period:			
PrimeLending	$ 33,714	$ 8,550	$ (12,788)
Hilltop Broker-Dealers	3,969	(3,085)	(381)
Bank	(7)	(148)	30

Hedging Derivative Instruments

During 2020, the Company entered into interest rate swap contracts with the initial notional amount of $61 million to manage the exposure to changes in fair value associated with certain available for sale fixed rate collateralized mortgage backed securities attributable to changes in the designated benchmark interest rate. These fair value hedges have been designated as a last-of-layer hedge, which provides the Company the ability to execute a fair value hedge of the interest rate risk associated with a portfolio of similar prepayable assets whereby the last dollar amount estimated to remain in the portfolio of assets is identified as the hedged item. Under these interest rate swap contracts, we receive a floating rate and pay a fixed rate on the outstanding notional amount. The Company recorded a cumulative basis adjustment. The Company has assessed the hedge effectiveness both at the onset of the hedge and at regular intervals throughout the life of the derivative. For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

The Company has outstanding interest rate swap contracts utilized to manage the variability of cash flows associated with our variable rate borrowings. Under these interest rate swap contract, we receive a floating rate and pay a fixed rate on the outstanding notional amount. The Company has designated the interest rate swap as a cash flow hedge and assessed the hedge effectiveness both at the onset of the hedge and at regular intervals throughout the life of the derivative. To the extent that the interest rate swap is highly effective in offsetting the variability of the hedged cash flows, changes in the fair value of the derivative are included as a component of other comprehensive loss on our consolidated balance sheets. Although the Company has determined at the onset of the hedge that the interest rate swap will be a highly effective hedge throughout the term of the contract, any portion of fair value swap subsequently determined to be ineffective will be recognized in earnings.

Derivative positions are presented in the following table (in thousands).

	December 31, 2020		December 31, 2019	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Derivative instruments (not designated as hedges):				
IRLCs	$ 2,470,013	$ 76,048	$ 914,526	$ 18,222
Customer-based written options	—	—	31,200	—
Customer-based purchased options	—	—	31,200	—
Commitments to purchase MBSs	2,478,041	22,311	3,346,946	3,321
Commitments to sell MBSs	6,141,079	(40,621)	5,988,198	(5,904)
Interest rate swaps	43,786	(2,196)	15,012	(178)
U.S. Treasury bond futures and options (1)	225,400	—	283,500	—
Eurodollar futures (1)	—	—	934,000	—
Derivative instruments (designated as hedges):				
Interest rate swaps designated as cash flow hedges	$ 105,000	$ (3,112)	$ 50,000	$ 528
Interest rate swaps designated as fair value hedges (2)	60,618	(130)	—	—

(1) Changes in the fair value of these contracts are settled daily with the respective counterparties of PrimeLending and the Hilltop Broker-Dealers.

(2) The Company designated $60.6 million as the hedged amount (from a closed portfolio of prepayable available for sale securities with a carrying value of $60.7 million as of December 31, 2020) in a last-of-layer hedging relationship, which commenced in the fourth quarter of 2020. The cumulative basis adjustment included in the carrying value of the hedged items totaled $0.1 million.

The increase in the estimated fair value of the IRLCs at December 30, 2020, compared to December 31, 2019, was driven by the accelerated decrease in mortgage interest rates during 2020 triggered by the economic impact of the COVID-19 pandemic, and an increase in the average value of individual IRLCs. The increase in average value of individual IRLCs was primarily driven by PrimeLending managing increased loan origination volumes to a level that could be supported by its loan fulfillment operations and addressing anticipated enhanced credit and liquidity risks triggered by the economic impact of the COVID-19 pandemic.

PrimeLending has cash collateral advances totaling $26.1 million and $4.5 million to offset net liability derivative positions on its commitments to sell MBSs at December 31, 2020 and 2019, respectively. In addition, PrimeLending and the Hilltop Broker-Dealers advanced cash collateral totaling $2.7 million and $3.7 million on its U.S. Treasury bond futures and options and Eurodollar futures at December 31, 2020 and 2019, respectively. These amounts are included in other assets within the consolidated balance sheets.

28. Balance Sheet Offsetting

Certain financial instruments, including resale and repurchase agreements, securities lending arrangements and derivatives, may be eligible for offset in the consolidated balance sheets and/or subject to master netting arrangements or similar agreements. The following tables present the assets and liabilities subject to enforceable master netting arrangements, repurchase agreements, or similar agreements with offsetting rights (in thousands).

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Balance Sheet: Cash Collateral Pledged	Net Amount
December 31, 2020						
Securities borrowed:						
Institutional counterparties	$ 1,338,855	$ —	$ 1,338,855	$ (1,273,955)	$ —	$ 64,900
Reverse repurchase agreements:						
Institutional counterparties	80,319	—	80,319	(79,925)	—	394
Forward MBS derivatives:						
Institutional counterparties	22,311	—	22,311	(22,311)	—	—
	$ 1,441,485	$ —	$ 1,441,485	$ (1,376,191)	$ —	$ 65,294
December 31, 2019						
Securities borrowed:						
Institutional counterparties	$ 1,634,782	$ —	$ 1,634,782	$ (1,586,820)	$ —	$ 47,962
Reverse repurchase agreements:						
Institutional counterparties	59,031	—	59,031	(58,619)	—	412
Forward MBS derivatives:						
Institutional counterparties	3,640	—	3,640	(3,640)	—	—
	$ 1,697,453	$ —	$ 1,697,453	$ (1,649,079)	$ —	$ 48,374

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Balance Sheet: Cash Collateral Pledged	Net Amount
December 31, 2020						
Securities loaned:						
Institutional counterparties	$ 1,245,066	$ —	$ 1,245,066	$ (1,179,090)	$ —	$ 65,976
Interest rate swaps:						
Institutional counterparties	2,196	—	2,196	(2,123)	—	73
Repurchase agreements:						
Institutional counterparties	237,856	—	237,856	(237,856)	—	—
Forward MBS derivatives:						
Institutional counterparties	40,741	(120)	40,621	(12,670)	—	27,951
	$ 1,525,859	$ (120)	$ 1,525,739	$ (1,431,739)	$ —	$ 94,000
December 31, 2019						
Securities loaned:						
Institutional counterparties	$ 1,555,964	$ —	$ 1,555,964	$ (1,509,933)	$ —	$ 46,031
Interest rate swaps:						
Institutional counterparties	178	—	178	(112)	—	66
Repurchase agreements:						
Institutional counterparties	586,651	—	586,651	(586,651)	—	—
Customer counterparties	25,474	—	25,474	(25,474)	—	—
Forward MBS derivatives:						
Institutional counterparties	6,890	(667)	6,223	(2,384)	—	3,839
	$ 2,175,157	$ (667)	$ 2,174,490	$ (2,124,554)	$ —	$ 49,936

Secured Borrowing Arrangements

Secured Borrowings (Repurchase Agreements) — The Company participates in transactions involving securities sold under repurchase agreements, which are secured borrowings and generally mature one to ninety days from the transaction date or involve arrangements with no definite termination date. Securities sold under repurchase agreements are reflected at the amount of cash received in connection with the transactions. The Company may be required to provide additional collateral based on the fair value of the underlying securities, which is monitored on a daily basis.

Securities Lending Activities — The Company's securities lending activities include lending securities for other broker-dealers, lending institutions and its own clearing and retail operations. These activities involve lending securities to other broker-dealers to cover short sales, to complete transactions in which there has been a failure to deliver securities by the required settlement date and as a conduit for financing activities.

When lending securities, the Company receives cash or similar collateral and generally pays interest (based on the amount of cash deposited) to the other party to the transaction. Securities lending transactions are executed pursuant to written agreements with counterparties that generally require securities loaned to be marked-to-market on a daily basis. The Company receives collateral in the form of cash in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities loaned on a daily basis, with additional collateral obtained or refunded, as necessary. Collateral adjustments are made on a daily basis through the facilities of various clearinghouses. The Company is a principal in these securities lending transactions and is liable for losses in the event of a failure of any other party to honor its contractual obligation. Management sets credit limits with each counterparty and reviews these limits regularly to monitor the risk level with each counterparty. The Company is subject to credit risk through its securities lending activities if securities prices decline rapidly because the value of the Company's collateral could fall below the amount of the indebtedness it secures. In rapidly appreciating markets, credit risk increases due to short positions. The Company's securities lending business subjects the Company to credit risk if a counterparty fails to perform or if collateral securing its obligations is insufficient. In securities transactions, the Company is subject to credit risk during the period between the execution of a trade and the settlement by the customer.

The following tables present the remaining contractual maturities of repurchase agreement and securities lending transactions accounted for as secured borrowings (in thousands). The Company had no repurchase-to-maturity transactions outstanding at both December 31, 2020 and 2019.

	Remaining Contractual Maturities				
December 31, 2020	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
Repurchase agreement transactions:					
Asset-backed securities	$ 110,831	$ —	$ 127,025	$ —	$ 237,856
Securities lending transactions:					
Corporate securities	113	—	—	—	113
Equity securities	1,244,953	—	—	—	1,244,953
Total	$ 1,355,897	$ —	$ 127,025	$ —	$ 1,482,922
Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above					$ 1,482,922
Amount related to agreements not included in offsetting disclosure above					$ —

	Remaining Contractual Maturities				
December 31, 2019	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
Repurchase agreement transactions:					
U.S. Treasury and agency securities	$ 45,950	$ —	$ —	$ —	$ 45,950
Asset-backed securities	257,396	12,892	295,887	—	566,175
Securities lending transactions:					
Corporate securities	120	—	—	—	120
Equity securities	1,555,844	—	—	—	1,555,844
Total	$ 1,859,310	$ 12,892	$ 295,887	$ —	$ 2,168,089
Gross amount of recognized liabilities for repurchase agreement and securities lending transactions in offsetting disclosure above					$ 2,168,089
Amount related to agreements not included in offsetting disclosure above					$ —

29. Broker-Dealer and Clearing Organization Receivables and Payables

Broker-dealer and clearing organization receivables and payables consisted of the following (in thousands).

	December 31, 2020	December 31, 2019
Receivables:		
Securities borrowed	$ 1,338,855	$ 1,634,782
Securities failed to deliver	58,244	18,726
Trades in process of settlement	—	104,922
Other	7,628	21,850
	$ 1,404,727	$ 1,780,280
Payables:		
Securities loaned	$ 1,245,066	$ 1,555,964
Correspondents	33,547	37,036
Securities failed to receive	61,589	8,568
Trades in process of settlement	21,765	—
Other	6,406	3,950
	$ 1,368,373	$ 1,605,518

30. Segment and Related Information

Following the sale of NLC on June 30, 2020, we have two primary business units within continuing operations, PCC (banking and mortgage origination) and Securities Holdings (broker-dealer). Under GAAP, our continuing operations business units are comprised of three reportable business segments organized primarily by the core products offered to the segments' respective customers: banking, broker-dealer and mortgage origination. These segments reflect the manner in which operations are managed and the criteria used by the chief operating decision maker, the Company's President and Chief Executive Officer, to evaluate segment performance, develop strategy and allocate resources.

The banking segment includes the operations of the Bank. The broker-dealer segment includes the operations of Securities Holdings, and the mortgage origination segment is composed of PrimeLending.

As discussed in Note 3 to the consolidated financial statements, during the first quarter of 2020, management had determined that the insurance segment met the criteria to be presented as discontinued operations. On June 30, 2020, Hilltop completed the sale of NLC, which comprised the operations of the former insurance segment. As a result, insurance segment results and its assets and liabilities have been presented as discontinued operations in the consolidated financial statements. Income from discontinued operations before taxes was $38.9 million, $17.6 million and $5.8 million during 2020, 2019 and 2018, respectively. At December 31, 2019, goodwill and assets of discontinued operations were $24.0 million and $248.4 million, respectively.

Corporate includes certain activities not allocated to specific business segments. These activities include holding company financing and investing activities, merchant banking investment opportunities and management and administrative services to support the overall operations of the Company.

Balance sheet amounts not discussed previously and the elimination of intercompany transactions are included in "All Other and Eliminations." The following tables present certain information about continuing operations reportable business segment revenues, operating results, goodwill and assets (in thousands).

Year Ended December 31, 2020	Banking	Broker-Dealer	Mortgage Origination	Corporate	All Other and Eliminations	Continuing Operations
Net interest income (expense)	$ 390,871	$ 39,912	$ (10,489)	$ (14,192)	$ 18,064	$ 424,166
Provision for credit losses	96,326	165	—	—	—	96,491
Noninterest income	41,376	491,355	1,172,450	3,945	(18,646)	1,690,480
Noninterest expense	232,447	415,463	753,917	53,040	(1,064)	1,453,803
Income (loss) from continuing operations before taxes	$ 103,474	$ 115,639	$ 408,044	$ (63,287)	$ 482	$ 564,352

Year Ended December 31, 2019	Banking	Broker-Dealer	Mortgage Origination	Corporate	All Other and Eliminations	Continuing Operations
Net interest income (expense)	$ 379,258	$ 51,308	$ (6,273)	$ (5,541)	$ 20,227	$ 438,979
Provision for (reversal of) credit losses	7,280	(74)	—	—	—	7,206
Noninterest income	41,753	404,411	634,992	2,104	(20,443)	1,062,817
Noninterest expense	231,524	366,031	563,998	50,968	(632)	1,211,889
Income (loss) from continuing operations before taxes	$ 182,207	$ 89,762	$ 64,721	$ (54,405)	$ 416	$ 282,701

Year Ended December 31, 2018	Banking	Broker-Dealer	Mortgage Origination	Corporate	All Other and Eliminations	Continuing Operations
Net interest income (expense)	$ 370,732	$ 50,878	$ 1,485	$ (9,176)	$ 19,380	$ 433,299
Provision for (reversal of) credit losses	5,319	(231)	—	—	—	5,088
Noninterest income	43,588	301,714	551,860	4,798	(21,830)	880,130
Noninterest expense	256,577	320,241	540,474	36,628	(592)	1,153,328
Income (loss) from continuing operations before taxes	$ 152,424	$ 32,582	$ 12,871	$ (41,006)	$ (1,858)	$ 155,013

	Banking	Broker-Dealer	Mortgage Origination	Corporate	All Other and Eliminations	Continuing Operations
December 31, 2020						
Goodwill	$ 247,368	$ 7,008	$ 13,071	$ —	$ —	$ 267,447
Total assets	$ 13,338,930	$ 3,196,346	$ 3,285,005	$ 2,823,374	$ (5,699,391)	$ 16,944,264
December 31, 2019						
Goodwill	$ 247,368	$ 7,008	$ 13,071	$ —	$ —	$ 267,447
Total assets in continuing operations	$ 11,147,344	$ 3,457,068	$ 2,357,415	$ 2,393,604	$ (4,431,412)	$ 14,924,019

31. Earnings per Common Share

The following table presents the computation of basic and diluted earnings per common share (in thousands, except per share data).

	Year Ended December 31, 2020	2019	2018
Basic earnings per share:			
Income from continuing operations	$ 409,440	$ 211,301	$ 116,500
Income from discontinued operations	38,396	13,990	4,941
Income attributable to Hilltop	$ 447,836	$ 225,291	$ 121,441
Weighted average shares outstanding - basic	89,280	92,345	94,969
Basic earnings per common share:			
Income from continuing operations	$ 4.59	$ 2.29	$ 1.23
Income from discontinued operations	0.43	0.15	0.05
	$ 5.02	$ 2.44	$ 1.28
Diluted earnings per share:			
Income from continuing operations	$ 409,440	$ 211,301	$ 116,500
Income from discontinued operations	38,396	13,990	4,941
Income attributable to Hilltop	$ 447,836	$ 225,291	$ 121,441
Weighted average shares outstanding - basic	89,280	92,345	94,969
Effect of potentially dilutive securities	24	49	98
Weighted average shares outstanding - diluted	89,304	92,394	95,067
Diluted earnings per common share:			
Income from continuing operations	$ 4.58	$ 2.29	$ 1.23
Income from discontinued operations	0.43	0.15	0.05
	$ 5.01	$ 2.44	$ 1.28

32. Financial Statements of Parent

The following tables present the condensed combined financial statements of the Company's bank holding company entities, Hilltop and PCC. The tables also include the corporate activities associated with Hilltop Opportunity Partners LLC and the Hilltop Plaza Entities (in thousands). Investments in subsidiaries are determined using the equity method of accounting.

Condensed Combined Statements of Operations and Comprehensive Income

	Year Ended December 31,		
	2020	2019	2018
Dividends from bank subsidiaries	$ 249,771	$ 143,000	$ 42,000
Dividends from nonbank subsidiaries	56,150	36,950	37,500
Investment income	4,102	5,933	3,089
Interest expense	18,294	11,474	12,265
Other income	45,887	2,221	4,893
General and administrative expense	58,130	50,968	36,628
Income before income taxes and equity in undistributed earnings of subsidiaries activity	279,486	125,662	38,589
Income tax benefit	(13,897)	(12,706)	(7,767)
Equity in undistributed earnings of subsidiaries	176,294	94,609	79,371
Net income	$ 469,677	$ 232,977	$ 125,727
Other comprehensive income (loss), net	6,344	20,046	(5,656)
Comprehensive income	$ 476,021	$ 253,023	$ 120,071

Condensed Combined Balance Sheets

	December 31,		
	2020	2019	2018
Assets:			
Cash and cash equivalents	$ 478,826	$ 116,471	$ 54,405
Investment in subsidiaries:			
Bank subsidiaries	1,654,249	1,523,549	1,459,984
Nonbank subsidiaries	453,847	533,844	483,593
Other assets	236,452	219,740	245,200
Total assets	$ 2,823,374	$ 2,393,604	$ 2,243,182
Liabilities and Stockholders' Equity:			
Accounts payable and accrued expenses	$ 64,635	$ 53,418	$ 58,319
Notes payable	412,764	215,780	215,620
Stockholders' equity	2,345,975	2,124,406	1,969,243
Total liabilities and stockholders' equity	$ 2,823,374	$ 2,393,604	$ 2,243,182

Condensed Combined Statements of Cash Flows

	Year Ended December 31,		
	2020	2019	2018
Operating Activities:			
Net income	$ 469,677	$ 232,977	$ 125,727
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(176,294)	(94,609)	(79,371)
Net realized gains on equity investments	—	—	(5,336)
Net realized gains on disposal of discontinued operations	(41,901)	—	—
Deferred income taxes	4,432	(123)	217
Other, net	37,465	44,943	19,368
Net cash provided by operating activities	293,379	183,188	60,605
Investing Activities:			
Purchases of equity investments	(29,365)	—	(12,492)
Purchases of premises and equipment and other	(12,547)	(17,302)	(42,390)
Proceeds from sales of equity investments	—	—	16,174
Proceeds from sale of discontinued operations	154,963	—	—
Net cash provided by (used in) investing activities	113,051	(17,302)	(38,708)
Financing Activities:			
Payments to repurchase common stock	(208,664)	(73,385)	(58,990)
Proceeds from issuance of notes payable	196,657	—	—
Dividends paid on common stock	(32,524)	(29,627)	(26,698)
Net cash contributed from noncontrolling interest	825	100	19,250
Other, net	(369)	(908)	2,182
Net cash used in financing activities	(44,075)	(103,820)	(64,256)
Net change in cash and cash equivalents	362,355	62,066	(42,359)
Cash and cash equivalents, beginning of year	116,471	54,405	96,764
Cash and cash equivalents, end of year	$ 478,826	$ 116,471	$ 54,405
Supplemental Schedule of Non-Cash Activities:			
Construction in progress related to build-to-suit lease obligations	$ —	$ —	$ 27,802
Note receivable contributed from nonbank subsidiary	$ —	$ —	$ 111,653

33. Selected Quarterly Financial Information (Unaudited)

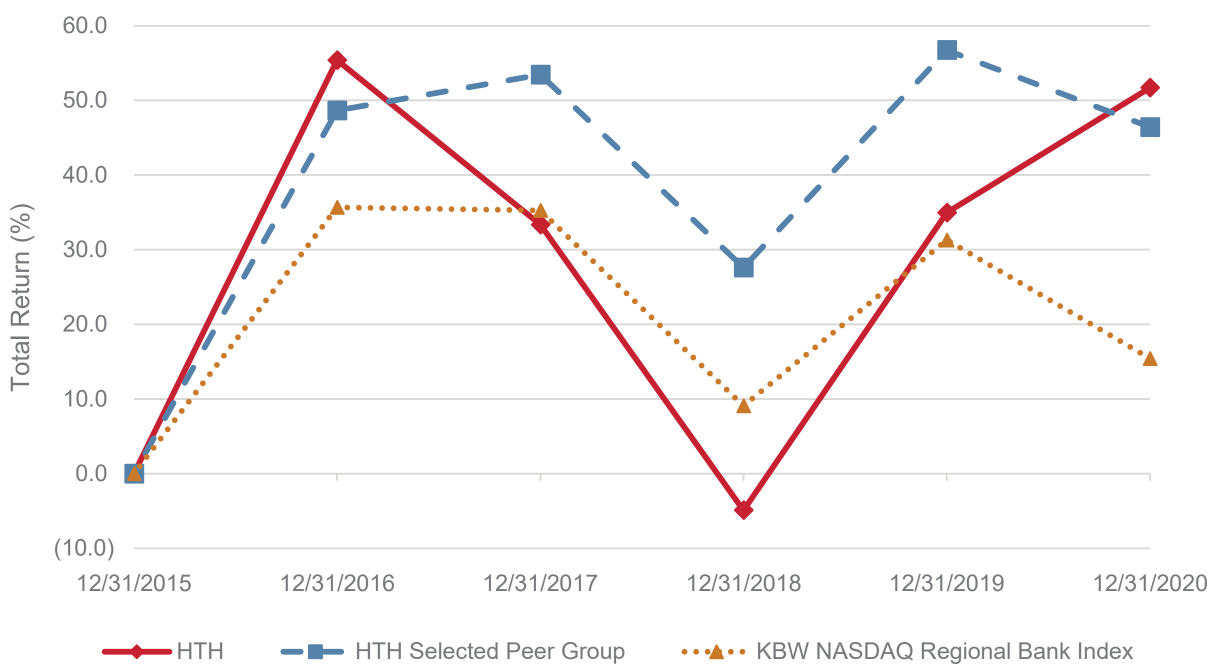
Selected quarterly financial information is summarized as follows (in thousands, except per share data).

	Year Ended December 31, 2020				
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Full Year
Interest income	$ 136,861	$ 129,828	$ 134,931	$ 144,875	$ 546,495
Interest expense	29,489	27,928	30,373	34,539	122,329
Net interest income	107,372	101,900	104,558	110,336	424,166
Provision for (reversal of) credit losses	(3,482)	(602)	66,026	34,549	96,491
Noninterest income	447,931	502,711	468,125	271,713	1,690,480
Noninterest expense	402,348	399,345	370,209	281,901	1,453,803
Income from continuing operations before income taxes	156,437	205,868	136,448	65,599	564,352
Income tax expense	39,295	46,820	31,808	15,148	133,071
Income from continuing operations	117,142	159,048	104,640	50,451	431,281
Income from discontinued operations, net of income taxes	3,734	736	30,775	3,151	38,396
Net income	120,876	159,784	135,415	53,602	469,677
Less: Net income attributable to noncontrolling interest	4,431	6,505	6,939	3,966	21,841
Income attributable to Hilltop	$ 116,445	$ 153,279	$ 128,476	$ 49,636	$ 447,836
Earnings per common share:					
Basic:					
Earnings from continuing operations	$ 1.31	$ 1.69	$ 1.08	$ 0.51	$ 4.59
Earnings from discontinued operations	0.04	0.01	0.34	0.04	0.43
	$ 1.35	$ 1.70	$ 1.42	$ 0.55	$ 5.02
Diluted:					
Earnings from continuing operations	$ 1.30	$ 1.69	$ 1.08	$ 0.51	$ 4.58
Earnings from discontinued operations	0.05	0.01	0.34	0.04	0.43
	$ 1.35	$ 1.70	$ 1.42	$ 0.55	$ 5.01
Cash dividends declared per common share	$ 0.09	$ 0.09	$ 0.09	$ 0.09	$ 0.36

	Year Ended December 31, 2019				
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Full Year
Interest income	$ 151,818	$ 160,940	$ 149,000	$ 148,938	$ 610,696
Interest expense	41,058	48,294	41,716	40,649	171,717
Net interest income	110,760	112,646	107,284	108,289	438,979
Provision for (reversal of) credit losses	6,880	47	(672)	951	7,206
Noninterest income	263,646	306,505	276,703	215,963	1,062,817
Noninterest expense	307,868	321,186	304,088	278,747	1,211,889
Income from continuing operations before income taxes	59,658	97,918	80,571	44,554	282,701
Income tax expense	13,579	21,472	18,526	10,137	63,714
Income from continuing operations	46,079	76,446	62,045	34,417	218,987
Income (loss) from discontinued operations, net of income taxes	5,623	5,261	(2,254)	5,360	13,990
Net income	51,702	81,707	59,791	39,777	232,977
Less: Net income attributable to noncontrolling interest	2,426	2,289	1,980	991	7,686
Income attributable to Hilltop	$ 49,276	$ 79,418	$ 57,811	$ 38,786	$ 225,291
Earnings per common share:					
Basic:					
Earnings from continuing operations	$ 0.48	$ 0.81	$ 0.64	$ 0.36	$ 2.29
Earnings (losses) from discontinued operations	0.06	0.06	(0.02)	0.05	0.15
	$ 0.54	$ 0.87	$ 0.62	$ 0.41	$ 2.44
Diluted:					
Earnings from continuing operations	$ 0.48	$ 0.81	$ 0.64	$ 0.36	$ 2.29
Earnings (losses) from discontinued operations	0.06	0.05	(0.02)	0.05	0.15
	$ 0.54	$ 0.86	$ 0.62	$ 0.41	$ 2.44
Cash dividends declared per common share	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.32

STOCK PERFORMANCE GRAPH

Our common stock is listed on the New York Stock Exchange under the symbol "HTH." The following graph assumes $100 invested on December 31, 2015, and compares (a) the yearly percentage change in the cumulative total stockholder return on our common stock (as measured by dividing (i) the sum of (A) the cumulative amount of dividends, assuming dividend reinvestment, during the period commencing on the first day of trading, and ending on December 31, 2020, and (B) the difference between our share price at the end and the beginning of the periods presented by (ii) the share price at the beginning of the periods presented) with (b) the KBW NASDAQ Regional Banking Index, and (c) our selected peer group of the following institutions: Ameris Bancorp; BancFirst Corporation; BancorpSouth Bank; Cadence Bancorporation; Commerce Bancshares, Inc.; First Financial Bancorp; First Financial Bankshares, Inc.; First Midwest Bancorp, Inc.; Flagstar Bancorp, Inc.; Hancock Whitney Corporation; Independent Bank Group, Inc.; International Bancshares Corporation; Prosperity Bancshares, Inc.; Renasant Corporation; Simmons First National Corporation; South State Corporation; Texas Capital Bancshares, Inc.; TowneBank; Trustmark Corporation; UMB Financial Corporation; Umpqua Holdings Corporation; and WesBanco, Inc.



Date	HTH	HTH Selected Peer Group	KBW NASDAQ Regional Bank Index
12/31/2020	51.7	46.4	15.4
12/31/2019	35.0	56.7	31.3
12/31/2018	(4.9)	27.6	9.1
12/31/2017	33.3	53.5	35.3
12/31/2016	55.4	48.7	35.7
12/31/2015	0.0	0.0	0.0

CORPORATE INFORMATION

Corporate Headquarters

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Facsimile: (214) 855-2173
www.hilltop-holdings.com

Transfer Agent and Registrar

American Stock Transfer & Trust Company
New York, New York
Toll free: (800) 937-5449
Telephone: (718) 921-8124

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
Dallas, Texas

Stock Symbol

Common Stock: HTH
New York Stock Exchange

Available Information

Hilltop Holdings Inc. makes available, free of charge, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, press releases, the Code of Business Conduct and Ethics and other company information. Such information will be furnished upon written request to:

Hilltop Holdings Inc.
6565 Hillcrest Avenue
Dallas, Texas 75205
Attn: Investor Relations

This information also is available on our website, www.hilltop-holdings.com. Reports we file with the Securities and Exchange Commission also are available at www.sec.gov.

Board of Directors*

Gerald J. Ford – Chairman
Rhodes R. Bobbitt
Tracy A. Bolt
J. Taylor Crandall
Charles R. Cummings
Hill A. Feinberg
Jeremy B. Ford
J. Markham Green
William T. Hill, Jr.
Charlotte Jones
Lee Lewis
Andrew J. Littlefair
W. Robert Nichols, III
Thomas C. Nichols
Kenneth D. Russell
A. Haag Sherman
Jonathan S. Sobel
Robert C. Taylor, Jr.
Carl B. Webb

Executive Officers

Jeremy B. Ford
President and Chief Executive Officer

William B. Furr
Executive Vice President, Chief Financial Officer

Corey G. Prestidge
Executive Vice President, General Counsel and Secretary

Darren E. Parmenter
Executive Vice President, Chief Administrative Officer

Keith E. Bornemann
Executive Vice President, Chief Accounting Officer

Jerry L. Schaffner
President and Chief Executive Officer of PlainsCapital Bank

Stephen Thompson
President and Chief Executive Officer of PrimeLending

M. Bradley Winges
President and Chief Executive Officer of HilltopSecurities

* Biographical information for directors is contained under the heading "Proposal One – Election of Directors – Nominees for Election as Directors" beginning on page 5 of the Proxy Statement.

Hilltop Holdings

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