BOK FINANCIAL CORP ET AL
Form 10-Q
May 01, 2015

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended March 31, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____________ to ______________

Commission File No. 0-19341

BOK FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Oklahoma<br>(State or other jurisdiction<br>of Incorporation or Organization) | 73-1373454<br>(IRS Employer<br>Identification No.) |
| Bank of Oklahoma Tower<br>Boston Avenue at Second Street<br>Tulsa, Oklahoma<br>(Address of Principal Executive Offices) | 74192<br>(Zip Code) |

(918) 588-6000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No ý

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 68,922,314 shares of common stock ($.00006 par value) as of March 31, 2015.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

Performance Summary

BOK Financial Corporation ("the Company") reported net income of $74.8 million or $1.08 per diluted share for the first quarter of 2015, compared to $76.6 million or $1.11 per diluted share for the first quarter of 2014 and $64.3 million or $0.93 per diluted share for the fourth quarter of 2014. Net income for the first quarter of 2014 included a $10.2 million or $0.15 per diluted share benefit from the reversal of accrued executive compensation costs.

Highlights of the first quarter of 2015 included:

- Net interest revenue totaled $167.7 million for the first quarter of 2015, compared to $162.6 million for the first quarter of 2014 and $169.7 million for the fourth quarter of 2014. Net interest margin decreased to 2.55% for the first quarter of 2015, primarily due to increased deposits at the Federal Reserve Bank funded by Federal Home Loan Bank borrowings and continued competitive loan pricing and low interest rates. Net interest margin was 2.71% for the first quarter of 2014 and 2.61% for the fourth quarter of 2014.
- Fees and commissions revenue totaled $166.0 million for the first quarter of 2015, a $25.1 million or 18% increase over the first quarter of 2014. Mortgage banking revenue increased $16.5 million based on higher loan production volume largely driven by lower primary mortgage interest rates. Fees and commissions revenue increased $8.1 million over the fourth quarter of 2014, primarily due to mortgage banking revenue.
- Changes in the fair value of mortgage servicing rights, net of economic hedges, decreased pre-tax net income in the first quarter of 2015 by $5.0 million, decreased pre-tax net income in the first quarter of 2014 by $908 thousand and decreased pre-tax net income by $6.1 million in the fourth quarter of 2014. Net changes in the fair value of mortgage servicing rights were largely driven by lower mortgage interest rates.
- Operating expenses totaled $220.3 million for the first quarter of 2015, an increase of $35.2 million over the first quarter of 2014. Operating expenses in the first quarter of 2014 were decreased by $15.5 million from the reversal of accrued executive compensation costs. Additionally, personnel expense increased $8.6 million and non-personnel expense increased $11.0 million. Operating expenses decreased $5.6 million compared to the previous quarter. The fourth quarter of 2014 included $4.9 million of facilities and personnel costs related to the previously announced closure of 29 grocery store branches.
- No provision for credit losses was recorded in the first quarter of 2015, the fourth quarter of 2014 or the first quarter of 2014. Gross charge-offs were $2.2 million in the first quarter of 2015, $2.8 million in the first quarter of 2014 and $7.2 million in the fourth quarter of 2014. Recoveries were $10.5 million in the first quarter of 2015, compared to $5.4 million in the first quarter of 2014 and $5.0 million in the fourth quarter of 2014.
- The combined allowance for credit losses totaled $199 million or 1.35% of outstanding loans at March 31, 2015, compared to $190 million or 1.34% of outstanding loans at December 31, 2014. Nonperforming assets that are not guaranteed by U.S. government agencies totaled $123 million or 0.85% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at March 31, 2015 and $129 million or 0.92% of outstanding loans and repossessed assets (excluding those guaranteed by U.S. government agencies) at December 31, 2014.
- Average loans increased by $673 million over the previous quarter due primarily to growth in commercial and commercial real estate loans. Average commercial loans were up $421 million and average commercial real estate loans increased $244 million. Period-end outstanding loan balances were $14.7 billion at March 31, 2015, a $476 million increase over December 31, 2014. Commercial loan balances increased $295 million and commercial real estate loans increased $207 million.
- Average deposits increased $551 million over the previous quarter, primarily due to an increase in interest-bearing transaction accounts. Average demand deposit and time deposit balances were largely unchanged compared to the prior quarter. Period-end deposits were $21.2 billion at March 31, 2015, largely unchanged compared to December 31, 2014.
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New regulatory capital rules were effective for BOK Financial on January 1, 2015 and established a 7% threshold for the common equity Tier 1 ratio. The Company's common equity Tier 1 ratio was 13.07% at March 31, 2015. In addition, the Company's Tier 1 capital ratio was 13.07%, total capital ratio was 14.39% and leverage ratio was 9.74% at March 31, 2015.

- The Company paid a regular quarterly cash dividend of $29 million or $0.42 per common share during the first quarter of 2015. On April 28, 2015, the board of directors approved a regular quarterly cash dividend of $0.42 per common share payable on or about May 29, 2015 to shareholders of record as of May 15, 2015. The Company also repurchased 502,156 common shares at an average price of $58.71 per share during the first quarter of 2015.

## Results of Operations

### Net Interest Revenue and Net Interest Margin

Net interest revenue is the interest earned on debt securities, loans and other interest-earning assets less interest paid for interest-bearing deposits and other borrowings. The net interest margin is calculated by dividing net interest revenue by average interest-earning assets. Net interest spread is the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin is typically greater than net interest spread due to interest income earned on assets funded by non-interest bearing liabilities such as demand deposits and equity.

Net interest revenue totaled $167.7 million for the first quarter of 2015 compared to $162.6 million for the first quarter of 2014 and $169.7 million for the fourth quarter of 2014. Net interest margin was 2.55% for the first quarter of 2015, 2.71% for the first quarter of 2014 and 2.61% for the fourth quarter of 2014.

Net interest revenue increased $5.1 million over the first quarter of 2014. Net interest revenue increased $12.3 million primarily due to the growth in average loan balances, partially offset by a decrease in available for sale securities balances. Net interest revenue decreased $6.8 million primarily due to continued lower loan yields, partially offset by lower funding costs and improved yields on available for sale securities.

The tax-equivalent yield on earning assets was 2.80% for the first quarter of 2015, down 19 basis points from the first quarter of 2014. Loan yields decreased 30 basis points primarily due to continued market pricing pressure and lower interest rates. The available for sale securities portfolio yield increased 7 basis points to 1.98%. Excess cash flows are currently being reinvested in short-duration securities that are yielding 1.50% to 2.00%. Funding costs were down 3 basis points compared to the first quarter of 2014. The cost of interest-bearing deposits decreased 4 basis points and the cost of other borrowed funds increased 6 basis points largely due to the mix of funding sources. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities was 13 basis points for both the first quarter of 2015 and the first quarter of 2014.

Average earning assets for the first quarter of 2015 increased $2.7 billion or 11% over the first quarter of 2014. Average loans, net of allowance for loan losses, increased $1.6 billion due primarily to growth in average commercial and commercial real estate loans. The average balance of interest-bearing cash and cash equivalents was up $1.5 billion compared to the first quarter of 2014 as borrowings from the Federal Home Loan Banks were deposited in the Federal Reserve to earn a spread of approximately $1.1 million. The average balance of available for sale securities decreased $975 million as we reduced the size of our bond portfolio during 2014 through normal monthly runoff to better position the balance sheet for a longer-term rising rate environment. The average balances of fair value option securities held as an economic hedge of our mortgage servicing rights, residential mortgage loans held for sale, restricted equity securities, and trading securities were all up over the prior year.

Average deposits increased $1.0 billion over the first quarter of 2014, including a $573 million increase in average demand deposit balances and a $438 million increase in average interest-bearing transaction accounts. Growth in average savings account balances were offset by a decrease in average time deposits. Average borrowed funds increased $1.3 billion compared to the first quarter of 2014, primarily due to increased borrowings from the Federal Home Loan Banks.

Net interest margin decreased 6 basis points compared to the fourth quarter of 2014. The yield on average earning assets decreased 6 basis points. The loan portfolio yield decreased 14 basis points to 3.59% primarily due to continued competitive loan pricing and low interest rates. The yield on the available for sale securities portfolio decreased 1 basis point to 1.98%. Funding costs were down 1 basis point to 0.38%. The cost of other borrowed funds was unchanged compared to the fourth quarter. The benefit to net interest margin from earning assets funded by non-interest bearing liabilities was unchanged.

Average earning assets increased $782 million during the first quarter of 2015, primarily due to growth in average outstanding loans of $673 million over the previous quarter. Average commercial loan balances were up $421 million and average commercial real estate loan balances increased $244 million. The average balance of fair value option securities held as an economic hedge of our mortgage servicing rights increased $183 million and residential mortgage loans held for sale increased $26 million. This growth was partially offset by a $60 million decrease in the average balance of the available for sale securities portfolio and a $24 million decrease in average trading securities balances. Average deposits increased $551 million over the previous quarter. Interest-bearing transaction account balances increased $608 million and time deposit account balances increased $12 million. Demand deposit balances decreased $89 million. The average balance of borrowed funds increased $66 million over the fourth quarter of 2014, primarily due to increased borrowings from the Federal Home Loan Banks.

Our overall objective is to manage the Company's balance sheet to be relatively neutral to changes in interest rates as is further described in the Market Risk section of this report. More than three-fourths of our commercial and commercial real estate loan portfolios are either variable rate or fixed rate that will re-price within one year. These loans are funded primarily by deposit accounts that are either non-interest bearing, or that re-price more slowly than the loans. The result is a balance sheet that would be asset sensitive, which means that assets generally re-price more quickly than liabilities. Among the strategies that we use to manage toward a relatively rate-neutral position, we purchase fixed rate residential mortgage-backed securities issued primarily by U.S. government agencies and fund them with market rate sensitive liabilities. The liability-sensitive nature of this strategy provides an offset to the asset-sensitive characteristics of our loan portfolio. We also may use derivative instruments to manage our interest rate risk.

The effectiveness of these strategies is reflected in the overall change in net interest revenue due to changes in interest rates as shown in Table 1 and in the interest rate sensitivity projections as shown in the Market Risk section of this report.

Table 1 -- Volume/Rate Analysis
(In thousands)

| | Three Months Ended March 31, 2015 / 2014 | | |
|---|---|---|---|
| | | Change Due To[1] | |
| | Change | Volume | Yield / Rate |
| Tax-equivalent interest revenue: | | | |
| Interest-bearing cash and cash equivalents | $1,157 | $911 | $246 |
| Trading securities | 154 | 220 | (66) |
| Investment securities: | | | |
| Taxable securities | 44 | 121 | (77) |
| Tax-exempt securities | (266) | (151) | (115) |
| Total investment securities | (222) | (30) | (192) |
| Available for sale securities: | | | |
| Taxable securities | (4,150) | (5,341) | 1,191 |
| Tax-exempt securities | 186 | (99) | 285 |
| Total available for sale securities | (3,964) | (5,440) | 1,476 |
| Fair value option securities | 1,152 | 957 | 195 |
| Restricted equity securities | 1,600 | 1,092 | 508 |
| Residential mortgage loans held for sale | 1,359 | 1,383 | (24) |
| Loans | 4,617 | 14,803 | (10,186) |
| Total tax-equivalent interest revenue | 5,853 | 13,896 | (8,043) |
| Interest expense: | | | |
| Transaction deposits | (94) | 7 | (101) |
| Savings deposits | (4) | 11 | (15) |
| Time deposits | (783) | (112) | (671) |
| Funds purchased | (145) | (181) | 36 |
| Repurchase agreements | (47) | 37 | (84) |
| Other borrowings | 1,431 | 1,827 | (396) |
| Subordinated debentures | 7 | 4 | 3 |
| Total interest expense | 365 | 1,593 | (1,228) |
| Tax-equivalent net interest revenue | 5,488 | 12,303 | (6,815) |
| Change in tax-equivalent adjustment | 405 | | |
| Net interest revenue | $5,083 | | |

[1] Changes attributable to both volume and yield/rate are allocated to both volume and yield/rate on an equal basis.

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Other Operating Revenue

Other operating revenue was $166.0 million for the first quarter of 2015, a $27.1 million increase over the first quarter of 2014 and a $14.1 million increase over the fourth quarter of 2014. Fees and commissions revenue increased $25.1 million over the first quarter of 2014 and increased $8.1 million compared to the prior quarter. The change in the fair value of mortgage servicing rights, net of economic hedges, decreased other operating revenue by $5.0 million in the first quarter of 2015, $6.1 million in the fourth quarter of 2014 and $908 thousand in the first quarter of 2014.

Table 2 – Other Operating Revenue
(In thousands)

| | Three Months Ended March 31, | | | | Three Months Ended | | |
|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | Increase (Decrease) | % Increase (Decrease) | Dec. 31, 2014 | Increase (Decrease) | % Increase (Decrease) |
| Brokerage and trading revenue | $31,707 | $29,516 | $2,191 | 7 % | $30,602 | $1,105 | 4 % |
| Transaction card revenue | 31,010 | 29,134 | 1,876 | 6 % | 31,467 | (457 ) | (1 )% |
| Fiduciary and asset management revenue | 31,469 | 25,722 | 5,747 | 22 % | 30,649 | 820 | 3 % |
| Deposit service charges and fees | 21,684 | 22,689 | (1,005 ) | (4 )% | 22,581 | (897 ) | (4 )% |
| Mortgage banking revenue | 39,320 | 22,844 | 16,476 | 72 % | 30,105 | 9,215 | 31 % |
| Bank-owned life insurance | 2,198 | 2,106 | 92 | 4 % | 2,380 | (182 ) | (8 )% |
| Other revenue | 8,603 | 8,852 | (249 ) | (3 )% | 10,071 | (1,468 ) | (15 )% |
| Total fees and commissions revenue | 165,991 | 140,863 | 25,128 | 18 % | 157,855 | 8,136 | 5 % |
| Gain on other assets, net | 755 | (2,328 ) | 3,083 | N/A | 338 | 417 | N/A |
| Gain on derivatives, net | 911 | 968 | (57 ) | N/A | 1,070 | (159 ) | N/A |
| Gain on fair value option securities, net | 2,647 | 2,660 | (13 ) | N/A | 3,685 | (1,038 ) | N/A |
| Change in fair value of mortgage servicing rights | (8,522 ) | (4,461 ) | (4,061 ) | N/A | (10,821 ) | 2,299 | N/A |
| Gain on available for sale securities, net | 4,327 | 1,240 | 3,087 | N/A | 149 | 4,178 | N/A |
| Total other-than-temporary impairment | (781 ) | — | (781 ) | N/A | (373 ) | (408 ) | N/A |
| Portion of loss recognized in (reclassified from) other comprehensive income | 689 | — | 689 | N/A | — | 689 | N/A |
| Net impairment losses recognized in earnings | (92 ) | — | (92 ) | N/A | (373 ) | 281 | N/A |
| Total other operating revenue | $166,017 | $138,942 | $27,075 | 19 % | $151,903 | $14,114 | 9 % |

Certain percentage increases (decreases) in non-fees and commissions revenue are not meaningful for comparison purposes based on the nature of the item.

Fees and commissions revenue

Diversified sources of fees and commissions revenue are a significant part of our business strategy and represented 50% of total revenue for the first quarter of 2015, excluding provision for credit losses and gains and losses on other assets, securities and derivatives and the change in the fair value of mortgage servicing rights. We believe that a variety of fee revenue sources provides an offset to changes in interest rates, values in the equity markets, commodity prices and consumer spending, all of which can be volatile. As an example of this strength, many of the economic factors that cause net interest revenue compression such as falling interest rates may also drive growth in our mortgage banking revenue. We expect growth in other operating revenue to come through offering new products and services and by further development of our presence in other markets. However, current and future economic conditions, regulatory constraints, increased competition and saturation in our existing markets could affect the rate of future increases.

Brokerage and trading revenue, which includes revenues from securities trading, customer hedging, retail brokerage and investment banking, increased $2.2 million over the first quarter of 2014.

Securities trading revenue was $10.0 million for the first quarter of 2015, an increase of $404 thousand over the first quarter of 2014. Securities trading revenue includes net realized and unrealized gains primarily related to sales of U.S. government securities, residential mortgage-backed securities guaranteed by U.S. government agencies and municipal securities to institutional customers.

Customer hedging revenue is based primarily on realized and unrealized changes in the fair value of derivative contracts held for customer risk management programs. As more fully discussed under Customer Derivative Programs in Note 3 of the Consolidated Financial Statements, we offer commodity, interest rate, foreign exchange and equity derivatives to our customers. Customer hedging revenue totaled $10.3 million for the first quarter of 2015, a $3.3 million increase over the prior year primarily due to higher volumes of derivative contracts executed by our mortgage banking customers.

Revenue earned from retail brokerage transactions decreased $2.7 million or 28% compared to the first quarter of 2014 to $6.8 million. Retail brokerage revenue is primarily based on fees and commissions earned on sales of fixed income securities, annuities and mutual funds to retail customers. Revenue is primarily based on the volume of customer transactions during the quarter. The number of transactions typically increases with market volatility and decreases with market stability.

Investment banking, which includes fees earned upon completion of underwriting and financial advisory services and loan syndication fees, totaled $4.6 million for the first quarter of 2015, a $1.2 million or 33% increase over the first quarter of 2014 primarily related to underwriting and financial advisory fees.

Brokerage and trading revenue increased $1.1 million over the fourth quarter of 2014. Securities trading revenue increased $654 thousand and customer hedging revenue increased $333 thousand. Retail brokerage fees were up $1.0 million, partially offset by a $904 thousand decrease in investment banking primarily due to lower loan syndication fees due to the timing of completed transactions.

Transaction card revenue depends largely on the volume and amount of transactions processed, the number of TransFund automated teller machine (“ATM”) locations and the number of merchants served. Transaction card revenue for the first quarter of 2015 increased $1.9 million or 6% over the first quarter of 2014. Revenues from the processing of transactions on behalf of the members of our TransFund electronic funds transfer ("EFT") network totaled $16.0 million, an $817 thousand or 5% increase over the prior year, due to increased transaction volumes and increased dollar amounts per transaction. Merchant services fees totaled $10.5 million, an increase of $938 thousand or 10% on increased transaction activity. Revenue from interchange fees paid by merchants for transactions processed from debit cards issued by the Company totaled $4.6 million, an increase of $121 thousand or 3% compared to the first quarter of 2014.

Transaction card revenue decreased $457 thousand compared to the fourth quarter of 2014. Growth in merchant services fees was primarily offset by a seasonal decrease in EFT network revenues and interchange fee revenue from debit cards issued by the Company.

Fiduciary and asset management revenue grew by $5.7 million or 22% over the first quarter of 2014. A full quarter of earnings from the acquisition of Topeka, Kansas-based GTRUST Financial Corporation in the first quarter of 2014 and Houston, Texas-based MBM Advisors in the second quarter of 2014 added $2.8 million of revenue in the first quarter of 2015 and $2.1 billion of fiduciary assets as of March 31, 2015. The remaining increase was primarily due to the growth in the fair value of fiduciary assets administered by the Company. Fiduciary assets are assets for which the Company possesses investment discretion on behalf of another or any other similar capacity. The fair value of fiduciary assets administered by the Company totaled $37.5 billion at March 31, 2015, $31.3 billion at March 31, 2014 and $36.0 billion at December 31, 2014.

Fiduciary and asset management revenue increased $820 thousand over the fourth quarter of 2014 primarily due to the growth in the fair value of fiduciary assets administered by the Company.

We also earn fees as administrator to and investment adviser for the Cavanal Hill Funds, a diversified, open-ended investment company established as a business trust under the Investment Company Act of 1940. The Bank is custodian and BOSC, Inc. is distributor for the Cavanal Hill Funds. Products of the Cavanal Hill Funds are offered to customers, employee benefit plans, trusts and the general public in the ordinary course of business. We have voluntarily waived administration fees on the Cavanal Hill money market funds in order to maintain positive yields on these funds in the current low short-term interest rate environment. Waived fees totaled $2.7 million for the first quarter of 2015 compared to $2.2 million for the first quarter of 2014 and $2.8 million for the fourth quarter of 2014.

Deposit service charges and fees were $21.7 million for the first quarter of 2015 compared to $22.7 million for the first quarter of 2014. Overdraft fees totaled $9.4 million for the first quarter of 2015, a decrease of $1.6 million or 15% compared to the first quarter of 2014. Commercial account service charge revenue totaled $10.5 million, an increase of $688 thousand or 7% over the prior year. Service charges on deposit accounts with a standard monthly fee were $1.8 million, a decrease of $65 thousand or 4% compared to the first quarter of 2014. Deposit service charges and fees decreased $897 thousand compared to the prior quarter primarily due to decreased overdraft fee volumes, partially offset by increased commercial account service charges.

Mortgage banking revenue increased $16.5 million over the first quarter of 2014. Mortgage production revenue increased $14.6 million largely due to increased production activity driven by a 63 basis point decrease in average primary mortgage interest rates. Mortgage loans funded for sale totaled $1.6 billion during the first quarter of 2015, an increase of $838 million over the first quarter of 2014. In addition, outstanding commitments to fund mortgage loans totaled $651 million at March 31, 2015, an increase of $263 million over March 31, 2014. The decrease in average interest rates also increased the percentage of refinanced mortgage loans, which generally are more profitable, to 56% in the first quarter of 2015 from 32% in the first quarter of 2014. Mortgage servicing revenue grew by $1.9 million or 17% over the first quarter of 2014. The outstanding principal balance of mortgage loans serviced for others totaled $16.9 billion, an increase of $2.9 billion or 21%.

Mortgage banking revenue increased $9.2 million over the fourth quarter of 2014. Mortgage production revenue increased $8.9 million largely due to increased production activity driven by a 24 basis point decrease in average primary mortgage interest rates. Total mortgage loans originated during the first quarter increased $301 million or 24% over the previous quarter and outstanding mortgage loan commitments at March 31 increased $130 million or 25% over December 31. In addition, the percentage of refinanced mortgage loans increased to 56% of first quarter originations, compared to 37% in the fourth quarter. Revenue from mortgage loan servicing grew by $364 thousand due to an increase in the volume of loans serviced. The outstanding balance of mortgage loans serviced for others increased $774 million over December 31, 2014.

Table 3 – Mortgage Banking Revenue
(In thousands)

| | Three Months Ended March 31, 2015 | 2014 | Increase (Decrease) | % Increase (Decrease) | Three Months Ended Dec. 31, 2014 | Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|---|---|---|
| Net realized gains on mortgage loans sold | $17,251 | $9,179 | $8,072 | 88 % | $17,671 | $(420) | (2)% |
| Change in net unrealized gains (losses) on mortgage loans held for sale | 3,451 | 2,797 | 654 | 23 % | 618 | 2,833 | 458 % |
| Change in fair value of mortgage loan commitments | 7,529 | 3,379 | 4,150 | 123 % | 1,491 | 6,038 | 405 % |
| Change in fair value of forward sales contracts | (2,191) | (3,903) | 1,712 | (44)% | (2,591) | 400 | (15)% |
| Total mortgage production revenue | 26,040 | 11,452 | 14,588 | 127 % | 17,189 | 8,851 | 51 % |
| Servicing revenue | 13,280 | 11,392 | 1,888 | 17 % | 12,916 | 364 | 3 % |
| Total mortgage revenue | $39,320 | $22,844 | $16,476 | 72 % | $30,105 | $9,215 | 31 % |
| | | | | | | | |
| Mortgage loans funded for sale | 1,565,016 | 727,516 | 837,500 | 115 % | 1,264,269 | 300,747 | 24 % |
| Mortgage loan refinances to total funded | 56 % | 32 % | | | 37 % | | |
| | | | | | | | |
| Outstanding principal balance of mortgage loans serviced for others | $16,937,128 | $14,045,642 | $2,891,486 | 21 % | $16,162,887 | $774,241 | 5 % |
| Period end outstanding mortgage commitments | $650,988 | $387,755 | $263,233 | 68 % | $520,829 | $130,159 | 25 % |

Net gains on securities, derivatives and other assets

In the first quarter of 2015, we recognized a $4.3 million net gain from sales of $335 million of available for sale securities. Securities were sold either because they had reached their expected maximum potential return or to move into securities that will perform better in a rising rate environment. In the first quarter of 2014, we recognized a $1.2 million net gain from sales of $531 million of available for sale securities and in the fourth quarter of 2014, we recognized a $149 thousand net gain on sales of $772 million of available for sale securities.

We also maintain a portfolio of residential mortgage-backed securities issued by U.S. government agencies and interest rate derivative contracts designated as an economic hedge of the changes in the fair value of our mortgage servicing rights. The fair value of our mortgage servicing rights fluctuates due to changes in prepayment speeds and other assumptions as more fully described in Note 5 to the Consolidated Financial Statements. As benchmark mortgage rates increase, prepayment speeds slow and the value of our mortgage servicing rights increases. As benchmark mortgage rates fall, prepayment speeds increase and the value of our mortgage servicing rights decreases.

Changes in the fair value of mortgage servicing rights are highly dependent on changes in primary mortgage rates, rates offered to borrowers, and assumptions about servicing revenues, servicing costs and discount rates. Changes in the fair value of residential mortgage-backed securities and interest rate derivative contracts are highly dependent on changes in secondary mortgage rates, or rates required by investors. While primary and secondary mortgage rates generally move in the same direction, the spread between them may widen and narrow due to market conditions and government intervention. Changes in the spread between the primary and secondary rates can cause significant earnings volatility. Additionally, the fair value of mortgage servicing rights is dependent on short-term interest rates that affect the value of custodial funds. Changes in the spread between short-term and long-term interest rates can also cause significant quarterly earnings volatility.

Table 4 following shows the relationship between changes in the fair value of mortgage servicing rights and the fair value of fair value option residential mortgage-backed securities and interest rate derivative contracts designated as an economic hedge.

Table 4 -- Gain (Loss) on Mortgage Servicing Rights
(In thousands)

| | Three Months Ended | | |
|---|---|---|---|
| | March 31, 2015 | Dec. 31, 2014 | March 31, 2014 |
| Gain on mortgage hedge derivative contracts, net | $911 | $1,070 | $968 |
| Gain on fair value option securities, net | 2,647 | 3,685 | 2,585 |
| Gain on economic hedge of mortgage servicing rights, net | 3,558 | 4,755 | 3,553 |
| Loss on change in fair value of mortgage servicing rights | (8,522) | (10,821) | (4,461) |
| Loss on changes in fair value of mortgage servicing rights, net of economic hedges | $(4,964) | $(6,066) | $(908) |
| Net interest revenue on fair value option securities | $1,739 | $912 | $790 |
| Primary residential mortgage interest rate – period end | 3.69% | 3.83% | 4.40% |
| Primary residential mortgage interest rate – average | 3.73% | 3.97% | 4.36% |
| Secondary residential mortgage interest rate – period end | 2.75% | 2.91% | 3.42% |
| Secondary residential mortgage interest rate – average | 2.69% | 2.96% | 3.44% |

Primary rates disclosed in Table 4 above represent rates generally available to borrowers on 30 year conforming mortgage loans and affect the value of our mortgage servicing rights. Secondary rates represent rates generally paid on 30 year residential mortgage-backed securities guaranteed by U.S. government agencies and affect the value of securities and derivative contracts used as an economic hedge of our mortgage servicing rights.

Gain (loss) on other assets included changes in the fair value of certain equity investments held as an economic hedge of a deferred compensation liability. During the first quarter of 2014, the value of certain of these investments was adjusted downward by $1.7 million. Gain (loss) on other assets for the first quarter of 2014 also included a $1.5 million charge against a merchant banking investment that is accounted for by the equity method.

Other Operating Expense

Other operating expense for the first quarter of 2015 totaled $220.3 million, a $35.2 million or 19% increase over the first quarter of 2014. Personnel expenses increased $24.1 million or 23%. The Company reversed $15.5 million accrued during 2011 through 2013 in the first quarter of 2014 for amounts payable to certain executive officers under the 2011 True-Up Plan. Non-personnel expenses increased $11.0 million or 14% over the prior year.

Operating expenses decreased $5.6 million compared to the previous quarter. Personnel expense increased $2.8 million. Non-personnel expense decreased $8.4 million. The fourth quarter of 2014 included $4.9 million of facilities and personnel costs related to the previously announced closure of 29 grocery store branches.

Table 5 -- Other Operating Expense
(In thousands)

| | Three Months Ended March 31, 2015 | Three Months Ended March 31, 2014 | Increase (Decrease) | % Increase (Decrease) | Three Months Ended Dec. 31, 2014 | Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|---|---|---|
| Regular compensation | $77,762 | $72,367 | $5,395 | 7 % | $78,327 | $(565) | (1)% |
| Incentive compensation: | | | | | | | |
| Cash-based | 26,941 | 24,727 | 2,214 | 9 % | 29,264 | (2,323) | (8)% |
| Share-based | 2,140 | 3,119 | (979) | (31)% | 3,012 | (872) | (29)% |
| Deferred compensation | 130 | (16,312) | 16,442 | (101)% | 60 | 70 | 117 % |
| Total incentive compensation | 29,211 | 11,534 | 17,677 | 153 % | 32,336 | (3,125) | (10)% |
| Employee benefits | 21,575 | 20,532 | 1,043 | 5 % | 15,078 | 6,497 | 43 % |
| Total personnel expense | 128,548 | 104,433 | 24,115 | 23 % | 125,741 | 2,807 | 2 % |
| Business promotion | 5,748 | 5,841 | (93) | (2)% | 7,498 | (1,750) | (23)% |
| Charitable contributions to BOKF Foundation | — | 2,420 | (2,420) | N/A | 1,847 | (1,847) | N/A |
| Professional fees and services | 10,059 | 7,565 | 2,494 | 33 % | 11,058 | (999) | (9)% |
| Net occupancy and equipment | 19,044 | 16,896 | 2,148 | 13 % | 22,655 | (3,611) | (16)% |
| Insurance | 4,980 | 4,541 | 439 | 10 % | 4,777 | 203 | 4 % |
| Data processing and communications | 30,620 | 27,135 | 3,485 | 13 % | 30,872 | (252) | (1)% |
| Printing, postage and supplies | 3,461 | 3,541 | (80) | (2)% | 3,168 | 293 | 9 % |
| Net losses and operating expenses of repossessed assets | 613 | 1,432 | (819) | (57)% | (1,497) | 2,110 | (141)% |
| Amortization of intangible assets | 1,090 | 816 | 274 | 34 % | 1,100 | (10) | (1)% |
| Mortgage banking costs | 9,319 | 3,634 | 5,685 | 156 % | 10,553 | (1,234) | (12)% |
| Other expense | 6,783 | 6,850 | (67) | (1)% | 8,105 | (1,322) | (16)% |
| Total other operating expense | $220,265 | $185,104 | $35,161 | 19 % | $225,877 | $(5,612) | (2)% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Average number of employees (full-time equivalent) | 4,741 | 4,640 | 101 | 2 % | 4,751 | (10 ) | — % |

Certain percentage increases (decreases) are not meaningful for comparison purposes.

Personnel expense

Regular compensation, which consists of salaries and wages, overtime pay and temporary personnel costs, increased $5.4 million or 7% over the first quarter of 2014. Although the average number of employees was largely unchanged compared to the prior year, recent additions have been higher-costing positions in compliance and risk management, technology, commercial banking and wealth management. Growth in these positions was partially offset by a decrease in the average number of employees in consumer banking. In addition, standard annual merit increases in regular compensation were effective for the majority of our staff March 1.

Incentive compensation increased $17.7 million over the first quarter of 2014. Cash-based incentive compensation plans are either intended to provide current rewards to employees who generate long-term business opportunities for the Company based on growth in loans, deposits, customer relationships and other measurable metrics or intended to compensate employees with commissions on completed transactions. Total cash-based incentive compensation increased $2.2 million or 9% over the first quarter of 2014.

Share-based compensation expense represents expense for equity awards based on grant-date fair value and is largely unaffected by subsequent changes in fair value. Share-based compensation expense plans include both equity and liability awards. Compensation expense for equity awards decreased $979 thousand compared to the first quarter of 2014. Non-vested shares awarded prior to 2013 generally cliff vest in 5 years. Non-vested shares awarded since January 1, 2013 generally cliff vest in 3 years and are subject to a two year holding period after vesting.

Deferred compensation expense for the first quarter of 2014 included a $15.5 million reduction in the accruals for amounts payable to certain executive officers of the Company under the 2011 True-Up Plan. Approved by shareholders on April 26, 2011, the True-Up Plan was designed to adjust annual and long-term performance-based incentive compensation for certain senior executives either upward or downward based on the earnings per share performance and compensation of comparable senior executives at peer banks for 2006 through 2013. The peer group of banks was determined based on asset size and included an equal number of publicly-traded SEC registered bank holding companies with the Company being the median bank. Based on annual From 10-K and proxy statements filed by our peer banks in the first quarter of 2014, the composition of the peer group and the compensation levels of comparable senior executives used in determining amounts payable both changed. Amounts accrued related to the 2011 True-Up Plan were paid in May 2014.

Deferred compensation expense for the first quarter of 2014 also included amounts indexed to the investment performance. Certain executive officers were permitted to defer recognition of taxable income from their share-based compensation. Substantially all of this deferred compensation was distributed in 2014.

Employee benefit expense increased $1.0 million or 5% compared to the first quarter of 2014 primarily due an increase in payroll taxes and employee retirement plan costs.
Personnel costs increased by $2.8 million over the fourth quarter of 2014, primarily due to a $4.2 million seasonal increase in payroll taxes. Incentive compensation expense decreased $3.1 million. In addition, the fourth quarter of 2014 included $800 thousand of costs related to the branch closures.

Non-personnel operating expenses

Non-personnel operating expenses increased $11.0 million or 14% over the first quarter of 2014.

Mortgage banking costs were up $5.7 million primarily due to a $3.8 million increase in amortization of mortgage servicing rights due to higher actual prepayments. In addition, the Company finalized hold-back claims related to purchased mortgage loan servicing rights which reduced expenses by $1.3 million in the first quarter of 2014.

Data processing and communication expense was up $3.5 million primarily due to increased transaction activity. Professional fees and services expense increased $2.5 million and occupancy and equipment costs were up $2.1 million. During the first quarter of 2014, the Company made a $2.4 million discretionary contribution of appreciated stock to the BOKF Foundation. This contribution decreased income tax expense by $1.2 million.
Non-personnel expense decreased $8.4 million over the fourth quarter of 2014. Net occupancy and equipment expense decreased $3.6 million. Approximately $4.1 million was expensed in the fourth quarter related to branch closure costs. Business promotion expense decreased $1.8 million, mortgage banking expense decreased $1.2 million and professional fees and services decreased $1.0 million. The Company also made a $1.8 million contribution of

developed commercial real estate to the BOKF Foundation during the fourth quarter of 2014. Net losses and operating expenses of repossessed assets were $613 thousand for the first quarter of 2015, compared to a net gain of $1.5 million in the fourth quarter.

Income Taxes

Income tax expense was $38.4 million or 33.8% of book taxable income for the first quarter of 2015 compared to $39.4 million or 33.9% of book taxable income for the first quarter of 2014 and $30.1 million or 31.5% of book taxable income for the fourth quarter of 2014. The Company made a charitable contribution of appreciated securities to the BOKF Foundation in the first quarter of 2014. The appreciation of these securities reduced tax expense by approximately $400 thousand. The Company also made a charitable contribution of a building and land to the BOKF Foundation in the fourth quarter of 2014. The increase in the fair market value of these assets reduced tax expense by approximately $300 thousand.

The Company adopted FASB Accounting Standards Update No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, on January 1, 2015. This standard was retrospectively applied to all periods presented. Approximately $1.9 million was reclassified from pre-tax earnings to income tax expense in both the first quarter of 2014 and the fourth quarter of 2014. This reclassification increased the effective tax rate by 120 basis points in the first quarter of 2014 and 140 basis points in the fourth quarter of 2014. Adoption of this standard did not affect net income.

BOK Financial operates in numerous jurisdictions, which requires judgment regarding the allocation of income, expense and earnings under various laws and regulations of each of these taxing jurisdictions. Each jurisdiction may audit our tax returns and may take different positions with respect to these allocations. The reserve for uncertain tax positions was $14 million at March 31, 2015, $13 million at December 31, 2014 and $12 million at March 31, 2014.

Lines of Business

We operate three principal lines of business: Commercial Banking, Consumer Banking and Wealth Management. Commercial Banking includes lending, treasury and cash management services and customer risk management products for small businesses, middle market and larger commercial customers. Commercial Banking also includes the TransFund EFT network. Consumer Banking includes retail lending and deposit services, lending and deposit services to small business customers served through our consumer branch network and all mortgage banking activities. Wealth Management provides fiduciary services, private banking services and investment advisory services in all markets. Wealth Management also underwrites state and municipal securities and engages in brokerage and trading activities.

In addition to our lines of business, we have a Funds Management unit. The primary purpose of this unit is to manage our overall liquidity needs and interest rate risk. Each line of business borrows funds from and provides funds to the Funds Management unit as needed to support their operations. Operating results for Funds Management and other include the effect of interest rate risk positions and risk management activities, securities gains and losses including impairment charges, the provision for credit losses in excess of net loans charged off, tax planning strategies and certain executive compensation costs that are not attributed to the lines of business.

We allocate resources and evaluate the performance of our lines of business using the net direct contribution which includes the allocation of funds, actual net credit losses and capital costs. In addition, we measure the performance of our business lines after allocation of certain indirect expenses and taxes based on statutory rates.

The cost of funds borrowed from the Funds Management unit by the operating lines of business is transfer priced at rates that approximate market rates for funds with similar duration. Market rates are generally based on the applicable LIBOR or interest rate swap rates, adjusted for prepayment risk. This method of transfer-pricing funds that support assets of the operating lines of business tends to insulate them from interest rate risk.

The value of funds provided by the operating lines of business to the Funds Management unit is also based on rates which approximate wholesale market rates for funds with similar duration and re-pricing characteristics. Market rates are generally based on LIBOR or interest rate swap rates. The funds credit formula applied to deposit products with indeterminate maturities is established based on their re-pricing characteristics reflected in a combination of the short-term LIBOR rate and a moving average of an intermediate term swap rate, with an appropriate spread applied to both. Shorter duration products are weighted towards the short term LIBOR rate and longer duration products are weighted towards the intermediate swap rates. The expected duration ranges from 30 days for certain rate-sensitive deposits to five years.

Economic capital is assigned to the business units by a capital allocation model that reflects management's assessment of risk. This model assigns capital based upon credit, operating, interest rate and other market risk inherent in our business lines and recognizes the diversification benefits among the units. The level of assigned economic capital is a combination of the risk taken by each business line, based on its actual exposures and calibrated to its own loss history where possible. Average invested capital includes economic capital and amounts we have invested in the lines of business.

As shown in Table 6, net income attributable to our lines of business increased $9.1 million or 20% over the first quarter of 2014. The increase was primarily due to increased fees and commissions revenue and recoveries of loans previously charged off, partially offset by increased operating expenses and net decreases in the fair value of mortgage servicing rights.

Table 6 -- Net Income by Line of Business
(In thousands)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Commercial Banking | $46,045 | $35,092 |
| Consumer Banking | 3,934 | 7,763 |
| Wealth Management | 4,484 | 2,541 |
| Subtotal | 54,463 | 45,396 |
| Funds Management and other | 20,380 | 31,194 |
| Total | $74,843 | $76,590 |

Commercial Banking

Commercial Banking contributed $46.0 million to consolidated net income in the first quarter of 2015, up $11.0 million or 31% over the first quarter of 2014. Increased net interest revenue, net recoveries of loans previously charged off and fees and commissions revenue was partially offset by increased operating expenses. Commercial Banking had $9.3 million of net recoveries in the first quarter of 2015 compared $3.5 million of net recoveries in the first quarter of 2014.

Table 7 -- Commercial Banking
(Dollars in thousands)

| | Three Months Ended March 31, 2015 | 2014 | Increase (Decrease) |
|---|---|---|---|
| Net interest revenue from external sources | $101,168 | $90,831 | $10,337 |
| Net interest expense from internal sources | (12,555) | (12,275) | (280) |
| Total net interest revenue | 88,613 | 78,556 | 10,057 |
| Net loans charged off (recovered) | (9,268) | (3,464) | (5,804) |
| Net interest revenue after net loans charged off (recovered) | 97,881 | 82,020 | 15,861 |
| | | | |
| Fees and commissions revenue | 42,822 | 39,970 | 2,852 |
| Gain (loss) on financial instruments and other assets, net | 62 | (1,284) | 1,346 |
| Other operating revenue | 42,884 | 38,686 | 4,198 |
| | | | |
| Personnel expense | 27,313 | 26,871 | 442 |
| Net losses and operating expenses of repossessed assets | 691 | 2,192 | (1,501) |
| Other non-personnel expense | 22,576 | 20,227 | 2,349 |
| Other operating expense | 50,580 | 49,290 | 1,290 |
| | | | |
| Net direct contribution | 90,185 | 71,416 | 18,769 |
| Corporate expense allocations | 14,825 | 13,982 | 843 |
| Income before taxes | 75,360 | 57,434 | 17,926 |
| Federal and state income tax | 29,315 | 22,342 | 6,973 |
| Net income | $46,045 | $35,092 | $10,953 |
| | | | |
| Average assets | $12,654,200 | $10,933,196 | $1,721,004 |
| Average loans | 11,892,703 | 10,257,540 | 1,635,163 |
| Average deposits | 8,996,972 | 8,743,927 | 253,045 |
| Average invested capital | 994,596 | 898,724 | 95,872 |
| Return on average assets | 1.48 % | 1.31 % | 17 bp |
| Return on invested capital | 18.79 % | 15.92 % | 287 bp |
| Efficiency ratio | 38.43 % | 41.52 % | (309) bp |
| Net recoveries (annualized) to average loans | (0.32)% | (0.14)% | (18) bp |

Net interest revenue increased $10.1 million or 13% over the prior year. Growth in net interest revenue was primarily due to a $1.6 billion or 16% increase in average loan balances and a $253 million or 3% increase in average deposits over the first quarter of 2014, partially offset by reduced yields on loans.

Fees and commissions revenue increased $2.9 million or 7% over the first quarter of 2014. Transaction card revenues from our TransFund electronic funds transfer network was up $1.8 million over the prior year primarily due to increased transaction activity. Commercial deposit service charge revenue increased $600 thousand and brokerage and trading revenue related to our commercial banking customers increased $356 thousand.

Operating expenses increased $1.3 million or 3% over the first quarter of 2014. Personnel costs increased $442 thousand or 2% primarily due to standard annual merit increases, partially offset by lower incentive compensation expense. Net losses and operating expenses on repossessed assets decreased $1.5 million. Other non-personnel expenses increased $2.3 million or 12%, primarily related to a $1.6 million increase in data processing expenses related to growth in the transaction activity and a $593 thousand increase in professional fees and services expense. Corporate expense allocations increased $843 thousand over the prior year.

The average outstanding balance of loans attributed to Commercial Banking grew by $1.6 billion over the first quarter of 2014 to $11.9 billion. See the Loans section of Management's Discussion and Analysis of Financial Condition following for additional discussion of changes in commercial and commercial real estate loans which are primarily attributed to the Commercial Banking segment.

Average deposits attributed to Commercial Banking were $9.0 billion for the first quarter of 2015, up $253 million or 3% over the first quarter of 2014. Commercial customers continue to maintain high account balances due to continued economic uncertainty and persistently low yields available on high quality investments.

Consumer Banking

Consumer Banking provides retail banking services through four primary distribution channels: traditional branches, the 24-hour ExpressBank call center, Internet banking and mobile banking. Consumer Banking also conducts mortgage banking activities through offices located outside of our consumer banking markets, through correspondent loan originators and through Home Direct Mortgage, an on-line origination channel.

Consumer Banking contributed $3.9 million to consolidated net income for the first quarter of 2015, a decrease of $3.8 million compared to the first quarter of 2014. The first quarter of 2015 included $3.0 million of actual facilities costs and $633 thousand of actual personnel costs related to the previously announced closure of 29 grocery store branches. These costs were accrued in the fourth quarter in the Funds Management and Other unit, with actual costs charged to Consumer Banking as incurred during the first quarter. The Consumer Banking segment will begin to benefit from these branch closures through lower operating expenses in the second quarter of 2015.

Growth in fees and commissions revenue driven primarily by mortgage banking was offset by decreased net interest revenue and increased operating expenses. Changes in the fair value of our mortgage servicing rights, net of economic hedge, resulted in a $3.0 million decrease in Consumer Banking net income in the first quarter of 2015 and a $555 thousand decrease in Consumer Banking net income in the first quarter of 2014.

Table 8 -- Consumer Banking
(Dollars in thousands)

| | Three Months Ended March 31, 2015 | 2014 | Increase (Decrease) |
|---|---|---|---|
| Net interest revenue from external sources | $20,725 | $20,983 | $(258) |
| Net interest revenue from internal sources | 7,914 | 9,229 | (1,315) |
| Total net interest revenue | 28,639 | 30,212 | (1,573) |
| Net loans charged off | 1,510 | 1,090 | 420 |
| Net interest revenue after net loans charged off | 27,129 | 29,122 | (1,993) |
| | | | |
| Fees and commissions revenue | 59,027 | 44,267 | 14,760 |
| Gain on financial instruments and other assets, net | 5,726 | 5,608 | 118 |
| Change in fair value of mortgage servicing rights | (8,522) | (4,461) | (4,061) |
| Other operating revenue | 56,231 | 45,414 | 10,817 |
| | | | |
| Personnel expense | 26,446 | 24,004 | 2,442 |
| Net losses (gains) and operating expenses of repossessed assets | 261 | (568) | 829 |
| Other non-personnel expense | 29,151 | 19,190 | 9,961 |
| Total other operating expense | 55,858 | 42,626 | 13,232 |
| | | | |
| Net direct contribution | 27,502 | 31,910 | (4,408) |
| Corporate expense allocations | 21,064 | 19,204 | 1,860 |
| Income before taxes | 6,438 | 12,706 | (6,268) |
| Federal and state income tax | 2,504 | 4,943 | (2,439) |
| Net income | $3,934 | $7,763 | $(3,829) |
| | | | |
| Average assets | $7,292,883 | $7,058,658 | $234,225 |
| Average loans | 1,939,921 | 2,011,844 | (71,923) |
| Average deposits | 6,621,377 | 6,441,020 | 180,357 |
| Average invested capital | 272,315 | 282,705 | (10,390) |
| Return on average assets | 0.22% | 0.45% | (23) bp |
| Return on invested capital | 5.86% | 11.14% | (528) bp |
| Efficiency ratio | 60.79% | 53.53% | 726 bp |
| Net charge-offs (annualized) to average loans | 0.32% | 0.22% | 10 bp |
| Residential mortgage loans funded for sale | $1,565,016 | $727,516 | $837,500 |

| | March 31, 2015 | March 31, 2014 | Increase (Decrease) |
|---|---|---|---|
| Banking locations | 154 | 202 | (48) |
| Residential mortgage loan servicing portfolio[1] | $18,065,514 | $15,156,948 | $2,908,566 |

[1] Includes outstanding principal for loans serviced for affiliates

Net interest revenue from Consumer Banking activities decreased $1.6 million or 5% compared to the first quarter of 2014, primarily due to a $2.7 million decrease in revenue on a deposit advance product that was phased out during the second quarter of 2014. Average loan balances were $72 million or 4% lower than the prior year.

Fees and commissions revenue increased $14.8 million or 33% over the first quarter of 2014. Mortgage banking revenue grew by $16.4 million over the prior year due largely to an increase in loan production activity. Deposit service charges and fees decreased $1.6 million compared to the prior year primarily due to lower overdraft fees.

Excluding the impact of the branch closure costs, operating expenses increased $9.6 million or 23% over the first quarter of 2014. Personnel expenses were up $1.8 million or 8% primarily due to increased incentive compensation expense and standard annual merit increases, partially offset by staffing reductions. Non-personnel expense increased $7.0 million or 36%. Mortgage banking costs increased $5.7 million compared to the prior year primarily due to increased amortization of mortgage servicing rights due to higher actual prepayments. In addition, we finalized hold-back claims related to purchased mortgage loan servicing rights which reduced expenses by $1.3 million in the first quarter of 2014. Professional fees were up $1.1 million, primarily related to higher mortgage compliance costs. Data processing and communications expense increased $751 thousand primarily related to increased transaction activity. Corporate expense allocations were up $1.9 million over the first quarter of 2014.

Average consumer deposits were up $180 million or 3% over the first quarter of 2014. Average demand deposit balances increased $191 million or 15%, average interest-bearing transaction accounts increased $143 million or 4% and average savings account balances increased $37 million or 12%. Average time deposit balances were down $190 million or 12% compared to the prior year.

Mortgage banking activities include the origination, marketing and servicing of conventional and government-sponsored residential mortgage loans. A 63 basis point decrease in average primary mortgage loan interest rates drove increased origination activity. We funded $1.6 billion of residential mortgage loans in the first quarter of 2015 and $751 million in the first quarter of 2014. Approximately 11% of our mortgage loans funded were in the Oklahoma market and 9% in the Texas market. In addition, 42% of our mortgage loan fundings came from correspondent lenders compared to 36% in the first quarter of 2014 and 19% was originated from our Home Direct Mortgage on-line sales channel.

At March 31, 2015, we serviced $16.9 billion of mortgage loans for others and $1.1 billion of loans retained within the consolidated group. Approximately 88% of the mortgage loans serviced were to borrowers in our primary geographical market areas. Loans past due 90 days or more totaled $68 million or 0.40% of loans serviced for others at March 31, 2015 compared to $75 million or 0.46% of loans serviced for others at December 31, 2014. Mortgage servicing revenue, including revenue on loans serviced for the consolidated group, totaled $13.7 million, up $1.9 million or 16% over the first quarter of 2014.

Wealth Management

Wealth Management contributed $4.5 million to consolidated net income in the first quarter of 2015, up $1.9 million over the first quarter of 2014. Growth in fiduciary and asset management revenue and brokerage and trading revenue was partially offset by increased operating expenses.

Table 9 -- Wealth Management
(Dollars in thousands)

| | Three Months Ended March 31, 2015 | 2014 | Increase (Decrease) |
|---|---|---|---|
| Net interest revenue from external sources | $5,384 | $5,838 | $(454) |
| Net interest revenue from internal sources | 5,654 | 4,685 | 969 |
| Total net interest revenue | 11,038 | 10,523 | 515 |
| Net loans charged off (recovered) | 57 | (45) | 102 |
| Net interest revenue after net loans charged off (recovered) | 10,981 | 10,568 | 413 |
| | | | |
| Fees and commissions revenue | 62,441 | 54,670 | 7,771 |
| Loss on financial instruments and other assets, net | (95) | (409) | 314 |
| Other operating revenue | 62,346 | 54,261 | 8,085 |
| | | | |
| Personnel expense | 43,398 | 39,588 | 3,810 |
| Net losses and expenses of repossessed assets | — | 327 | (327) |
| Other non-personnel expense | 11,644 | 9,333 | 2,311 |
| Other operating expense | 55,042 | 49,248 | 5,794 |
| | | | |
| Net direct contribution | 18,285 | 15,581 | 2,704 |
| Corporate expense allocations | 10,946 | 11,422 | (476) |
| Income before taxes | 7,339 | 4,159 | 3,180 |
| Federal and state income tax | 2,855 | 1,618 | 1,237 |
| Net income | $4,484 | $2,541 | $1,943 |
| | | | |
| Average assets | $4,828,340 | $4,621,817 | $206,523 |
| Average loans | 1,035,296 | 936,663 | 98,633 |
| Average deposits | 4,701,703 | 4,499,265 | 202,438 |
| Average invested capital | 224,054 | 199,369 | 24,685 |
| Return on average assets | 0.42 % | 0.26 % | 16 bp |
| Return on invested capital | 9.12 % | 5.95 % | 317 bp |
| Efficiency ratio | 74.73 % | 75.40 % | (67) bp |
| Net charge-offs (annualized) to average loans | 0.02 % | (0.02)% | 4 bp |

| | March 31, 2015 | 2014 | Increase (Decrease) |
|---|---|---|---|
| Fiduciary assets in custody for which BOKF has sole or joint discretionary authority | $15,197,567 | $13,467,695 | $1,729,872 |
| Fiduciary assets not in custody for which BOKF has sole or joint discretionary authority | 3,442,421 | 1,746,634 | 1,695,787 |
| Non-managed trust assets in custody | 18,871,758 | 16,082,236 | 2,789,522 |
| Total fiduciary assets | 37,511,746 | 31,296,565 | 6,215,181 |

| | | | |
|---|---|---|---|
| Assets held in safekeeping | 23,311,704 | 22,779,187 | 532,517 |
| Brokerage accounts under BOKF administration | 5,854,364 | 5,012,365 | 841,999 |
| Assets under management or in custody | $66,677,814 | $59,088,117 | $7,589,697 |

Net interest revenue for the first quarter of 2015 increased $515 thousand or 5% over the first quarter of 2014. Average deposit balances were up $202 million or 4% over the first quarter of 2014. Time deposit balances increased $207 million and non-interest bearing demand deposits increased $94 million. Interest-bearing transaction account balances decreased $95 million. Average loan balances were up $99 million or 11% over the prior year. The benefit of this growth was partially offset by lower yields.

Fees and commissions revenue was up $7.8 million or 14% over the first quarter of 2014 primarily due to growth in fiduciary and asset management revenue. A full quarter of earnings from the acquisition of Topeka, Kansas-based GTRUST Financial Corporation in the first quarter of 2014 and Houston, Texas-based MBM Advisors in the second quarter of 2014 added $2.8 million of revenue in the first quarter of 2015 and $2.1 billion in fiduciary assets over the prior year. The remaining increase was primarily due to the increase in the fair value of assets managed. Brokerage and trading revenue increased $1.9 million or 7%. Growth in securities trading revenue, customer hedging revenue and investment banking revenue was partially offset by a decrease in retail brokerage revenue.

Other operating revenue includes fees earned from state and municipal bond and corporate debt underwriting and financial advisory services, primarily in the Oklahoma and Texas markets. In the first quarter of 2015, the Wealth Management division participated in 93 state and municipal bond underwritings that totaled $1.7 billion. As a participant, the Wealth Management division was responsible for facilitating the sale of approximately $609 million of these underwritings. The Wealth Management division also participated in five corporate debt underwritings that totaled $5.9 billion. Our interest in these underwritings was $149 million. In the first quarter of 2014, the Wealth Management division participated in 76 state and municipal bond underwritings that totaled approximately $872 million. Our interest in these underwritings totaled approximately $461 million. The Wealth Management division also participated in three corporate debt underwritings that totaled $3.2 billion. Our interest in these underwritings was $51 million.

Operating expenses increased $5.8 million or 12% over the first quarter of 2014. Personnel expenses increased $3.8 million, including a $2.2 million increase in regular compensation, a $1.2 million increase in incentive compensation and a $452 thousand increase in employee benefits primarily related to investments in Wealth Management talent. A full quarter of expenses from GTRUST and MBM acquisitions added $805 thousand in personnel expense over the prior year. Non-personnel expense increased $2.3 million, including a $1.2 million increase related to the GTRUST and MBM acquisitions. The remaining increase was primarily due to increased data processing and communications and professional fees and services expense over the prior year. Corporate expense allocations decreased $476 thousand compared to the prior year.

Financial Condition
Securities

We maintain a securities portfolio to enhance profitability, manage interest rate risk, provide liquidity and comply with regulatory requirements. Securities are classified as trading, held for investment, or available for sale. See Note 2 to the consolidated financial statements for the composition of the securities portfolio as of March 31, 2015, December 31, 2014 and March 31, 2014.

At March 31, 2015, the carrying value of investment (held-to-maturity) securities was $635 million and the fair value was $658 million. Investment securities consist primarily of long-term, fixed rate Oklahoma and Texas municipal bonds, taxable Texas school construction bonds and residential mortgage-backed securities issued by U.S. government agencies. The investment security portfolio is diversified among issuers. The largest obligation of any single issuer is $30 million. Substantially all of these bonds are general obligations of the issuers. Approximately $105 million of the Texas school construction bonds are also guaranteed by the Texas Permanent School Fund Guarantee Program supervised by the State Board of Education for the State of Texas.

Available for sale securities, which may be sold prior to maturity, are carried at fair value. Unrealized gains or losses, net of deferred taxes, are recorded as accumulated other comprehensive income in shareholders' equity. The amortized cost of available for sale securities totaled $9.0 billion at March 31, 2015, an increase of $124 million from December 31, 2014. Available for sale securities consist primarily of U.S. government agency residential mortgage-backed securities and U.S. government agency commercial mortgage-backed securities. Commercial mortgage-backed securities have prepayment penalties similar to commercial loans. At March 31, 2015, residential mortgage-backed securities represented 75% of total available for sale securities.

A primary risk of holding residential mortgage-backed securities comes from extension during periods of rising interest rates or prepayment during periods of falling interest rates. We evaluate this risk through extensive modeling of risk both before making an investment and throughout the life of the security. Our best estimate of the duration of the combined residential mortgage-backed securities portfolio held in investment and available for sale securities at March 31, 2015 is 2.9 years. Management estimates the duration extends to 3.3 years assuming an immediate 200 basis point upward shock. The estimated duration contracts to 2.6 years assuming a 50 basis point decline in the current low rate environment.

Residential mortgage-backed securities also have credit risk from delinquency or default of the underlying loans. We mitigate this risk by primarily investing in securities issued by U.S. government agencies. Principal and interest payments on the underlying loans are fully guaranteed. At March 31, 2015, approximately $6.6 billion of the amortized cost of the Company's residential mortgage-backed securities were issued by U.S. government agencies. The fair value of these residential mortgage-backed securities totaled $6.7 billion at March 31, 2015.

We also hold amortized cost of $149 million in residential mortgage-backed securities privately issued by publicly-owned financial institutions, a decrease of $5.3 million from December 31, 2014. The decrease was due to cash payments received during the quarter. The fair value of our portfolio of privately issued residential mortgage-backed securities totaled $160 million at March 31, 2015.

The amortized cost of our portfolio of privately issued residential mortgage-backed securities included $85 million of Jumbo-A residential mortgage loans and $64 million of Alt-A residential mortgage loans. Jumbo-A residential mortgage loans generally meet government underwriting standards, but have loan balances that exceed agency maximums. Alt-A mortgage loans generally do not have sufficient documentation to meet government agency underwriting standards. Approximately 91% of our Alt-A mortgage-backed securities represent pools of fixed rate residential mortgage loans. None of the adjustable rate mortgages are payment option adjustable rate mortgages

(“ARMs”). Approximately 30% of our Jumbo-A residential mortgage-backed securities represent pools of fixed rate residential mortgage loans and none of the adjustable rate mortgages are payment option ARMs.

The aggregate gross amount of unrealized losses on available for sale securities totaled $14 million at March 31, 2015, compared to $33 million at December 31, 2014. On a quarterly basis, we perform separate evaluations on debt and equity securities to determine if the unrealized losses are temporary as more fully described in Note 2 of the Consolidated Financial Statements. During the first quarter of 2015, $92 thousand other-than-temporary impairment charges were recognized in earnings related to certain privately-issued residential mortgage backed securities.

Certain residential mortgage-backed securities issued by U.S. government agencies and included in fair value option securities on the Consolidated Balance Sheets have been segregated and designated as economic hedges of changes in the fair value of our mortgage servicing rights. We have elected to carry these securities at fair value with changes in fair value recognized in current period income. These securities are held with the intent that gains or losses will offset changes in the fair value of mortgage servicing rights and related derivative contracts.

BOK Financial is required to hold stock as members of the Federal Reserve system and the Federal Home Loan Banks ("FHLB"). These restricted equity securities are carried at cost as these securities do not have a readily determined fair value because the ownership of these shares are restricted and they lack a market. Federal Reserve Bank stock totaled $35 million and holdings of FHLB stock totaled $178 million at March 31, 2015. Holdings of FHLB stock increased $71 million over December 31, 2014. We are required to hold stock in the FHLB in proportion to our borrowings with the FHLB.

Bank-Owned Life Insurance

We have approximately $296 million of bank-owned life insurance at March 31, 2015. This investment is expected to provide a long-term source of earnings to support existing employee benefit programs. Approximately $265 million is held in separate accounts. Our separate account holdings are invested in diversified portfolios of investment-grade fixed income securities and cash equivalents, including U.S. Treasury and Agency securities, residential mortgage-backed securities, corporate debt, asset-backed and commercial mortgage-backed securities. The portfolios are managed by unaffiliated professional managers within parameters established in the portfolio’s investment guidelines. The cash surrender value of certain life insurance policies is further supported by a stable value wrap, which protects against changes in the fair value of the investments. At March 31, 2015, the cash surrender value represented by the underlying fair value of investments held in separate accounts was approximately $283 million. As the underlying fair value of the investments held in a separate account at March 31, 2015 exceeded the net book value of the investments, no cash surrender value was supported by the stable value wrap. The stable value wrap is provided by a domestic financial institution. The remaining cash surrender value of $31 million primarily represents the cash surrender value of policies held in general accounts and other amounts due from various insurance companies.

Loans

The aggregate loan portfolio before allowance for loan losses totaled $14.7 billion at March 31, 2015, an increase of $476 million over December 31, 2014. Outstanding commercial loans grew by $295 million over December 31, 2014, largely due to growth in services and sector loans. Commercial real estate loan balances were up $207 million primarily related to growth in loans secured by office buildings, industrial facilities and multifamily residential properties. Residential mortgage loans decreased $23 million and consumer loans decreased $4.2 million compared to December 31, 2014.

Table 10 -- Loans
(In thousands)

| | March 31, 2015 | Dec. 31, 2014 | Sept. 30, 2014 | June 30, 2014 | March 31, 2014 |
|---|---|---|---|---|---|
| Commercial: | | | | | |
| Energy | $2,902,994 | $2,860,428 | $2,551,699 | $2,419,788 | $2,344,072 |
| Services | 2,728,354 | 2,518,229 | 2,487,817 | 2,377,065 | 2,232,471 |
| Wholesale/retail | 1,270,322 | 1,313,316 | 1,273,241 | 1,318,151 | 1,225,990 |
| Manufacturing | 560,925 | 532,594 | 479,543 | 452,866 | 444,215 |
| Healthcare | 1,511,177 | 1,454,969 | 1,382,399 | 1,394,156 | 1,396,562 |
| Other commercial and industrial | 417,391 | 416,134 | 397,339 | 405,635 | 408,396 |
| Total commercial | 9,391,163 | 9,095,670 | 8,572,038 | 8,367,661 | 8,051,706 |
| | | | | | |
| Commercial real estate: | | | | | |
| Residential construction and land development | 139,152 | 143,591 | 175,228 | 184,779 | 184,820 |
| Retail | 658,860 | 666,889 | 611,265 | 642,110 | 640,506 |
| Office | 513,862 | 415,544 | 438,909 | 394,217 | 436,264 |
| Multifamily | 749,986 | 704,298 | 739,757 | 677,403 | 662,674 |
| Industrial | 478,584 | 428,817 | 371,426 | 342,080 | 305,207 |
| Other commercial real estate | 395,020 | 369,011 | 387,614 | 414,389 | 401,936 |
| Total commercial real estate | 2,935,464 | 2,728,150 | 2,724,199 | 2,654,978 | 2,631,407 |
| | | | | | |
| Residential mortgage: | | | | | |
| Permanent mortgage | 964,264 | 969,951 | 991,107 | 1,020,928 | 1,033,572 |
| Permanent mortgages guaranteed by U.S. government agencies | 200,179 | 205,950 | 198,488 | 188,087 | 184,822 |
| Home equity | 762,556 | 773,611 | 790,068 | 799,200 | 800,281 |
| Total residential mortgage | 1,926,999 | 1,949,512 | 1,979,663 | 2,008,215 | 2,018,675 |
| | | | | | |
| Consumer | 430,510 | 434,705 | 407,839 | 396,004 | 376,066 |
| | | | | | |
| Total | $14,684,136 | $14,208,037 | $13,683,739 | $13,426,858 | $13,077,854 |

Commercial

Commercial loans represent loans for working capital, facilities acquisition or expansion, purchases of equipment and other needs of commercial customers primarily located within our geographical footprint. Commercial loans are underwritten individually and represent on-going relationships based on a thorough knowledge of the customer, the customer’s industry and market. While commercial loans are generally secured by the customer’s assets including real property, inventory, accounts receivable, operating equipment, interests in mineral rights and other property and may also include personal guarantees of the owners and related parties, the primary source of repayment of the loans is the on-going cash flow from operations of the customer's business. Inherent lending risks are centrally monitored on a continuous basis from underwriting throughout the life of the loan for compliance with commercial lending policies.

Commercial loans totaled $9.4 billion or 64% of the loan portfolio at March 31, 2015, an increase of $295 million over December 31, 2014. Services sector loans grew by $210 million and healthcare sector loans increased $56 million over the prior quarter. Energy loans grew by $43 million and manufacturing sector loans increased $28 million, partially offset by a $43 million decrease in wholesale/retail sector loans.

Table 11 presents the commercial sector of our loan portfolio distributed primarily by collateral location. Loans for which collateral location is less relevant, such as unsecured loans and reserve-based energy loans, are distributed by the borrower's primary operating location. The majority of the collateral securing our commercial loan portfolio is located within our geographical footprint with 36% concentrated in the Texas market and 21% concentrated in the Oklahoma market. The Other category is primarily composed of two states, Louisiana and California, which represent $256 million or 3% of the commercial loan portfolio and $159 million or 2% of the commercial loan portfolio, respectively, at March 31, 2015. All other states individually represent one percent or less of total commercial loans.

Table 11 -- Commercial Loans by Collateral Location
(In thousands)

| | Oklahoma | Texas | New Mexico | Arkansas | Colorado | Arizona | Kansas/Missouri | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Energy | $602,340 | $1,368,935 | $54,856 | $7,241 | $393,259 | $12,082 | $69,172 | $395,109 | $2,902,994 |
| Services | 556,768 | 954,361 | 210,022 | 12,804 | 232,998 | 196,026 | 113,629 | 451,746 | 2,728,354 |
| Wholesale/retail | 331,639 | 504,743 | 41,813 | 60,596 | 64,779 | 47,723 | 66,559 | 152,470 | 1,270,322 |
| Manufacturing | 167,807 | 186,190 | 4,399 | 12,616 | 26,386 | 45,272 | 69,962 | 48,293 | 560,925 |
| Healthcare | 256,675 | 304,293 | 114,909 | 74,553 | 111,732 | 57,823 | 208,266 | 382,926 | 1,511,177 |
| Other commercial and industrial | 75,617 | 92,746 | 10,740 | 32,272 | 26,657 | 7,353 | 69,489 | 102,517 | 417,391 |
| Total commercial loans | $1,990,846 | $3,411,268 | $436,739 | $200,082 | $855,811 | $366,279 | $597,077 | $1,533,061 | $9,391,163 |

Supporting the energy industry with loans to producers and other energy-related entities has been a hallmark of the Company since its founding and represents a large portion of our commercial loan portfolio. In addition, energy production and related industries have a significant impact on the economy in our primary markets. Loans collateralized by oil and gas properties are subject to a semi-annual engineering review by our internal staff of petroleum engineers. This review is utilized as the basis for developing the expected cash flows supporting the loan amount. The projected cash flows are discounted according to risk characteristics of the underlying oil and gas properties. Loans are evaluated to demonstrate with reasonable certainty that crude oil, natural gas and natural gas liquids can be recovered from known oil and gas reservoirs under existing economic and operating conditions at current pricing levels and with existing conventional equipment and operating methods and costs. As part of our evaluation of credit quality, we analyze rigorous stress tests over a range of commodity prices and take proactive steps to mitigate risk when appropriate.

Outstanding energy loans totaled $2.9 billion or 20% of total loans at March 31, 2015. Unfunded energy loan commitments decreased by $117 million to $2.7 billion at March 31, 2015. Approximately $2.5 billion of energy loans were to oil and gas producers, up $30 million over December 31, 2014. Approximately 61% of the committed production loans are secured by properties primarily producing oil and 39% of the committed production loans are secured by properties primarily producing natural gas. Loans to borrowers that provide services to the energy industry increased $4.0 million to $226 million at March 31, 2015. Loans to midstream oil and gas companies totaled $107 million at March 31, 2015, an increase of $6.0 million from December 31, 2014. Loans to other energy borrowers, including those engaged in wholesale or retail energy sales, totaled $85 million, a $3.0 million increase over the prior quarter.

The services sector of the loan portfolio totaled $2.7 billion or 19% of total loans and consists of a large number of loans to a variety of businesses, including governmental, finance and insurance, educational services, religious and similar entities. Service sector loans grew by $210 million over December 31, 2014. Service sector loans are generally secured by the assets of the borrower with repayment coming from the cash flows of ongoing operations of the customer's business.

We participate in shared national credits when appropriate to obtain or maintain business relationships with local customers. Shared national credits are defined by banking regulators as credits of more than $20 million and with three or more non-affiliated banks as participants. At March 31, 2015, the outstanding principal balance of these loans totaled $3.3 billion. Substantially all of these loans are to borrowers with local market relationships. We serve as the agent lender in approximately 16% of our shared national credits, based on dollars committed. We hold shared credits to the same standard of analysis and perform the same level of review as internally originated credits. Our lending policies generally avoid loans in which we do not have the opportunity to maintain or achieve other business relationships with the customer. In addition to management's quarterly assessment of credit risk, banking regulators annually review a sample of shared national credits for proper risk grading.

Commercial Real Estate

Commercial real estate represents loans for the construction of buildings or other improvements to real estate and property held by borrowers for investment purposes generally within our geographical footprint, with larger concentrations in Texas and Oklahoma which represent 34% and 15% of the total commercial real estate portfolio at March 31, 2015, respectively. We require collateral values in excess of the loan amounts, demonstrated cash flows in excess of expected debt service requirements, equity investment in the project and a portion of the project already sold, leased or permanent financing already secured. The expected cash flows from all significant new or renewed income producing property commitments are stress tested to reflect the risks in varying interest rates, vacancy rates and rental rates. As with commercial loans, inherent lending risks are centrally monitored on a continuous basis from underwriting throughout the life of the loan for compliance with applicable lending policies.

Commercial real estate loans totaled $2.9 billion or 20% of the loan portfolio at March 31, 2015. The outstanding balance of commercial real estate loans increased $207 million during the first quarter of 2015. Loans secured by office buildings increased $98 million. Loans secured by industrial facilities grew by $50 million and loans secured by multifamily residential properties were up $46 million. Other commercial real estate loan balances increased $26 million. These increases were partially offset by a decrease in retail sector and residential construction and land development loan balances compared to December 31, 2014. The commercial real estate loan balance as a percentage of our total loan portfolio has ranged from 18% to 21% over the past five years. The commercial real estate sector of our loan portfolio distributed by collateral location follows in Table 12.

Table 12 -- Commercial Real Estate Loans by Collateral Location
(In thousands)

| | Oklahoma | Texas | New Mexico | Arkansas | Colorado | Arizona | Kansas/Missouri | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Residential construction and land development | $32,961 | $31,989 | $18,529 | $12,593 | $37,423 | $651 | $ 3,696 | $1,310 | $139,152 |
| Retail | 75,422 | 243,269 | 75,376 | 5,599 | 69,360 | 57,684 | 6,337 | 125,813 | 658,860 |
| Office | 80,476 | 209,702 | 28,508 | 570 | 21,279 | 37,159 | 11,992 | 124,176 | 513,862 |
| Multifamily | 126,186 | 265,059 | 33,072 | 24,172 | 66,715 | 73,937 | 47,511 | 113,334 | 749,986 |
| Industrial | 45,769 | 150,546 | 35,898 | 516 | 6,371 | 19,831 | 43,805 | 175,848 | 478,584 |
| Other real estate | 70,906 | 87,328 | 47,535 | 13,973 | 35,141 | 45,174 | 21,946 | 73,017 | 395,020 |
| Total commercial real estate loans | $431,720 | $987,893 | $238,918 | $57,423 | $236,289 | $234,436 | $ 135,287 | $613,498 | $2,935,464 |

Residential Mortgage and Consumer

Residential mortgage loans provide funds for our customers to purchase or refinance their primary residence or to borrow against the equity in their home. Residential mortgage loans are secured by a first or second-mortgage on the customer’s primary residence. Consumer loans include direct loans secured by and for the purchase of automobiles, recreational and marine equipment as well as other unsecured loans. Residential mortgage and consumer loans are made in accordance with underwriting policies we believe to be conservative and are fully documented. Credit scoring is assessed based on significant credit characteristics including credit history, residential and employment stability.

Residential mortgage loans totaled $1.9 billion, a $23 million decrease compared to December 31, 2014. In general, we sell the majority of our conforming fixed rate loan originations in the secondary market and retain the majority of our non-conforming and adjustable-rate mortgage loans. We have no concentration in sub-prime residential mortgage loans. Our mortgage loan portfolio does not include payment option adjustable rate mortgage loans or adjustable rate mortgage loans with initial rates that are below market. Collateral for 98% of our residential mortgage loan portfolio is located within our geographical footprint.

The majority of our permanent mortgage loan portfolio is composed of various non-conforming mortgage programs to support customer relationships including jumbo mortgage loans, non-builder construction loans and special loan programs for high net worth individuals or certain professionals. Jumbo loans may be fixed or variable rate and are fully amortizing. The size of jumbo loans exceed maximums set under government sponsored entity standards, but otherwise generally conform to those standards. These loans generally require a minimum FICO score of 720 and a maximum debt-to-income ratio (“DTI”) of 38%. Loan-to-value ratios (“LTV”) are tiered from 60% to 100%, depending on the market. Special mortgage programs include fixed and variable rate fully amortizing loans tailored to the needs of certain healthcare professionals. Variable rate loans are fully indexed at origination and may have fixed rates for three to ten years, then adjust annually thereafter.

At March 31, 2015, $200 million of permanent residential mortgage loans are guaranteed by U.S. government agencies. We have minimal credit exposure on loans guaranteed by the agencies. This amount includes residential mortgage loans previously sold into GNMA mortgage pools that the Company may repurchase when certain defined delinquency criteria are met. Because of this repurchase right, the Company is deemed to have regained effective control over these loans and must include them on the Consolidated Balance Sheet. Permanent residential mortgage loans guaranteed by U.S. government agencies decreased $5.8 million compared to December 31, 2014.

Home equity loans totaled $763 million at March 31, 2015, a decrease of $11 million compared to December 31, 2014. Our home equity loan portfolio is primarily composed of first-lien, fully amortizing home equity loans. Home equity loans generally require a minimum FICO score of 700 and a maximum DTI of 40%. The maximum loan amount available for our home equity loan products is generally $400 thousand. Revolving loans have a 5 year revolving period followed by a 15 year term of amortizing repayment. Interest-only home equity loans may not be extended for any additional revolving time. All other home equity loans may be extended at management's discretion for an additional 5 year revolving term subject to an update of certain credit information. A summary of our home equity loan portfolio at March 31, 2015 by lien position and amortizing status follows in Table 13.

Table 13 -- Home Equity Loans
(In thousands)

| | Revolving | Amortizing | Total |
|---|---|---|---|
| First lien | $36,375 | $493,976 | $530,351 |
| Junior lien | 67,666 | 164,539 | 232,205 |
| Total home equity | $104,041 | $658,515 | $762,556 |

The distribution of residential mortgage and consumer loans at March 31, 2015 is as follows in Table 14. Residential mortgage loans are distributed by collateral location. Consumer loans are generally distributed by borrower location.

Table 14 -- Residential Mortgage and Consumer Loans by Collateral Location
(In thousands)

| | Oklahoma | Texas | New Mexico | Arkansas | Colorado | Arizona | Kansas/Missouri | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| Residential mortgage: | | | | | | | | | |
| Permanent mortgage | $210,443 | $381,817 | $38,217 | $16,776 | $152,989 | $86,615 | $ 52,672 | $24,735 | $964,264 |
| Permanent mortgages guaranteed by U.S. government agencies | 64,550 | 23,902 | | | | | | | |