South Plains Financial, Inc.

Fourth Quarter 2023
Earnings Call Transcript

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CORPORATE PARTICIPANTS

Steven Crockett, *Chief Financial Officer and Treasurer*

Curtis Griffith, *Chairman and Chief Executive Officer*

Cory Newsom, *President*

Brent Bates, *Chief Credit Officer*

CONFERENCE CALL PARTICIPANTS

Graham Dick, *Piper Sandler & Co.*

Brett Rabatin, *Hovde Group*

Mark Shutley, *KBW*

Joe Yanchunis, *Raymond James*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the South Plains Financial, Inc. Fourth Quarter and Full Year 2023 Earnings Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions, with instructions to follow at that time.

As a reminder, this conference call is being recorded.

I would now like to turn the call over to Mr. Steve Crockett, Chief Financial Officer and Treasurer of South Plains Financial.

Steven Crockett

Thank you, Operator, and good morning, everyone. We appreciate your participation in our earnings conference call.

With me here today are Curtis Griffith, our Chairman and Chief Executive Office, Cory Newsom, our President, and Brent Bates, our Chief Credit Officer.

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The related earnings press release and earnings presentation are available on the News and Events section of our website, spfi.bank.

Before we begin, I'd like to remind everyone that this call may contain forward-looking statements that are subject to a variety of risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated future results. Please see our Safe Harbor statement in our earnings press release or on Slide 2 of the earnings presentation. All comments made during today's call are subject to those Safe Harbor statements. Any forward-looking statements presented herein are made only as of today's date and we do not undertake any duty to update such forward-looking statements, except as required by law.

Additionally, during today's call, we may discuss certain non-GAAP measures, which we believe are useful in evaluating our performance. A reconciliation of these non-GAAP measures to the most comparable GAAP measures can also be found in our earnings release and in the earnings presentation.

Curtis, let me hand it over to you.

Curtis Griffith

Thank you, Steve, and good morning.

On today's call, I will briefly review the highlights of our full year 2023 results, as well as provide an update on our capital allocation priorities. Cory will discuss our loan portfolio, as well as our initiatives to drive deposit and fee income growth in the year ahead. Steve will then conclude with a more detailed review of our fourth quarter financial results.

I would like to start by thanking our employees for their efforts and commitment to both the bank and our customers during an extremely challenging year for our industry. Our success would not be possible without their dedication and hard work.

As shown on Slide 4 of our earnings presentation, we delivered 9.7% loan growth for the full year, driven by the expansion of our lending platform, combined with a resilient economy, as Texas continues to benefit from in-migration and a favorable business climate. If inflation continues to moderate and the Federal Reserve begins to reduce their benchmark interest rate, we expect economic growth to accelerate as we look to the second half of 2024.

Looking back at the past year, our community-based deposit franchise grew modestly, which is impressive given the significant dislocation that occurred following the failures of Silicon Valley Bank and Signature Bank in the first quarter. For the full year, our core deposits grew 1%, excluding brokered deposits, to $3.26 billion, which demonstrates the resilience of our franchise, combined with our strong customer relationships. At quarter end, 81% of our deposits were in our rural markets, with 19% in our major metropolitan markets of Dallas, Houston and El Paso. Additionally, our average deposit account balance is approximately $36,000, with only an estimated 16% of our total deposits being uninsured or uncollateralized.

The credit quality of our loan portfolio also remained strong through the fourth quarter, as our classified loans have remained at the lowest level since the start of the pandemic as we ended the year.

Lastly, we increased our return on average assets to 1.54% for the full year 2023, as compared with 1.47% for the full year 2022.

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We also completed the sale of our Windmark crop insurance subsidiary in April for a pre-tax gain of $33.8 million. The gain that we recorded positioned us to strategically sell $56 million of investment securities at a loss in a tax-efficient manner and reinvest those proceeds into higher yielding loans.

Given our strong capital and liquidity position, our Board of Directors authorized a $15 million stock repurchase program in May, which has been exhausted. We repurchased 218,000 shares in the fourth quarter and a total of 686,000 shares during 2023. Through the year, our Board has believed that our shares have traded below intrinsic value and we have been aggressively buying our stock in the open market.

Looking to the year ahead, we will maintain our liquidity and continue to watch for opportunities to expand the Bank and our earnings power. M&A is an area of interest, and we believe you will see transactions take place in the market, as sellers' expectations are becoming more realistic. The decline in interest rates at the end of the year also led to a recovery in banks' securities portfolios, which will increase the probability that we will see deal volumes pick up. However, we will only be interested in acquiring a bank with the right culture, excess liquidity, a stable deposit base, and at a valuation that makes sense for us and our shareholders.

In the meantime, we remain focused on organic growth, while returning a steady stream of income to our shareholders through our quarterly dividend. Our Board of Directors again authorized a $0.13 per share quarterly dividend, as announced last week. This will be our nineteenth consecutive quarterly dividend, to be paid on February 12, 2024, for shareholders of record on January 29, 2024.

Now, I'll turn the call over to Cory.

Cory Newsom

Thank you, Curtis, and hello, everyone.

Starting on Slide 6, loans held for investment increased $20.6 million, or 2.8% annualized, as compared to the linked quarter. Loan demand was primarily in commercial real estate during the quarter and was partially offset by an approximate $10 million decline in our indirect auto portfolio. As we've said on previous calls, we're carefully managing our indirect auto portfolio with a focus on maintaining the portfolio's credit quality, while reinvesting a portion of the monthly principal amortization into higher yielding loans.

The yield on our loan portfolio was 6.29% in the fourth quarter, as compared to 6.1% in the linked quarter. We continue to price new loans to account for the higher interest rate environment that we are operating in, combined with the upward pressure on our deposit costs.

Skipping to Slide 8, we grew loans by $44 million, or 17.8% annualized, to $1.04 billion in our major metropolitan markets of Dallas, Houston and El Paso, as compared to the linked quarter. Our metro markets continue to be an important source of loan growth and more than offset the paydowns that we experienced in our community markets, as well as the expected decline in our indirect auto portfolio. We remain in a hiring mode as we look for good lenders who fit our culture and can bring new business to the bank, though we'll remain extremely selective.

Turning to Slide 9, demand across our markets remains healthy as we continue to experience solid economic growth, though we continue to be selective in who we do business with and what loans we underwrite. As a result, we expect low-single-digit loan growth for 2024, though we expect to continue to deliver interest income growth as many lower-rate loans continue to experience principal repayments and/or rate resets. While we expect a majority of this repricing to begin accelerating in the second half of

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2024, we believe loan yields will remain elevated even if the Fed begins to cut interest rates, given lower liquidity in the market, which will benefit our net interest income and NIM in the third and fourth quarters.

In conjunction with our effort to drive loan growth, we also need to deliver deposit growth while stabilizing our non-interest-bearing deposit balances. Though our lenders have always had an emphasis on deposits as a part of their incentive comp plan, we have brought a renewed focus on the type and value of these deposits. More specifically, true core deposits and non-interest-bearing balances now carry more weight in these plans. Better said, we are focused on the profitability of the whole relationship. We're also getting much better at putting in loan covenants to new loan originations centered on deposit requirements and liquidity maintenance agreements. While we've always targeted this, we're getting much better at negotiating these covenants.

Treasury management is another area where we have made real progress, as we've improved our team, our product and our capabilities over the last year. During the fourth quarter, we recruited a Senior Treasury Management Executive from a top seven U.S. bank to head this business, which follows several additions to our team as we improve the talent of this group. I am so excited with the level of people and product that we have today, which is unmatched in our history. We're also doing a better job than we ever have in making sure we align the right Treasury products with the customers' financial needs, thus allowing us to continue to drive both deposit growth and fee income.

Turning to Slide 11, we generated $9.1 million of non-interest income in the fourth quarter, as compared to $12.3 million in the third quarter. This decline was largely due to a $2.9 million decline in mortgage banking revenues, which includes a $2.2 million decline in the fair market value adjustment to our mortgage servicing rights portfolio. Importantly, we've aggressively managed our mortgage banking expense base as volumes have decreased over the last 18 months, with a focus on maintaining profitability. While this downturn in mortgage originations has been the most severe in more than three decades, we've experienced negligible losses, while maintaining our mortgage capabilities for the eventual turn in volumes as mortgage rates continue to decline; and, as I mentioned, we expect our initiatives in Treasury Management to begin to impact fee income beginning in the second quarter.

For the fourth quarter, non-interest income was 21% of Bank revenues, as compared to 26% in the third quarter of 2023.

To conclude, we delivered strong results through the fourth quarter and believe we remain well positioned. That said, we're not standing still and are aggressively addressing the current environment to manage deposit cost pressures, while accelerating fee income growth. We need to stabilize our non-interest-bearing deposits and grow our deposit franchise in order to position us to take advantage of improving loan demand as we move through 2024. I'm confident that we have the right people and plan and am excited with the opportunities ahead.

I will now turn the call over to Steve.

Steve Crockett

Thanks, Cory.

For the fourth quarter, diluted earnings per share was $0.61, which compares to $0.78 per share in the linked quarter. We recorded a $1.5 million write-down of the fair value of our mortgage servicing rights asset during the quarter, as compared to a $700,000 write-up in the linked quarter. The current quarter impact on our earnings per share was $0.07, after tax.

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Turning to Slide 13, net interest income was $35.2 million for the fourth quarter, as compared to $35.7 million for the linked quarter. Our loan production in the third quarter, combined with a rise in new loan rates, lifted the yield on our loan portfolio by 19 basis points in the fourth quarter, resulting in a $1.7 million increase in loan interest income. The rise in loan interest income was offset by the $1.3 million increase in interest expense due to the rise in short-term interest rates on interest-bearing liabilities and a decrease of $900,000 in income on other interest-earning assets, as average investable liquidity declined in the fourth quarter.

Our net interest margin, calculated on a tax-equivalent basis, held steady at 3.52% in the fourth quarter, as compared to the linked quarter. Higher loan balances and loan yields offset the rise in our cost of deposits and the decline in non-interest bearing deposits.

As outlined on Slide 14, our average cost of deposits was 224 basis points in the fourth quarter, an increase of 17 basis points from the linked quarter. Given the rising interest rate environment through the year, we have had to be proactive in maintaining deposit relationships, which has led to the rise in our funding costs.

Overall, our core deposit franchise continues to remain steady, with only a slight decrease in the fourth quarter. As Cory touched on, we've put initiatives in place designed to stabilize our non-interest-bearing deposit balances, while also driving core deposit growth. We expect these initiatives to begin to have an impact as we move through 2024. In the meantime, we expect continued upward pressure on deposit costs, which will modestly pressure our NIM. That said, we expect our NIM to trough through the first half of 2024.

Turning to Slide 15, our ratio of allowance for credit losses to total loans held for investment was 1.41% at December 31, 2023, which is unchanged from the end of the prior quarter. We recorded a $600,000 provision for credit losses in the fourth quarter, which was largely attributable to our organic loan growth, as well as net charge-off activity in the quarter.

Skipping ahead to Slide 19, our non-interest expense was $30.6 million in the fourth quarter, as compared to $31.5 million in the linked quarter. The $900,000 decrease was largely due to lower mortgage costs as we continue to manage through the decline in mortgage volumes. That said, we would expect non-interest expense to modestly rise through the first half of 2024, as mortgage volumes increase through the spring selling season.

Moving ahead to Slide 21, we remain well capitalized with tangible common equity to tangible assets of 9.21% at the end of the fourth quarter, an increase from 8.40% at the end of the third quarter of 2023. The increase was largely driven by a $32.9 million increase in accumulated other comprehensive income, or AOCI, and $8.2 million of net income after dividends paid. AOCI was positively impacted by decreases in long-term market interest rates during the fourth quarter. Tangible book value per share increased to $23.47 as of December 31, compared to $21.07 as of September 30, 2023, largely due to the impact of AOCI and our net earnings in the fourth quarter.

I'll turn the call back to Curtis for concluding remarks.

Curtis Griffith

Thank you, Steve.

To conclude, I'm very proud of our performance over the past year. Our community-based deposit franchise remained resilient, while our lenders continued to drive high-quality loan growth that contributed to our strong earnings growth in 2023. We also sold Windmark, which provided capital for share

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repurchases, as well as a strategic reposition of a portion of our securities portfolio. The Bank is operating very well as we enter 2024, but we know we have much more to do.

As Cory outlined, we have initiatives in place that we believe will stabilize our non-interest-bearing deposit balances, grow core deposits and drive fee income growth. This will provide improved liquidity for loan growth looking to the second half of 2024, when we expect to see a meaningful portion of our loan portfolio reprice and an acceleration in the Texas economy from already healthy levels. We expect competitor liquidity to fund new loans in our markets to be limited and believe we will be well positioned to add high-quality customers and attractive loans to our portfolio. We also expect our fee income to improve starting in the second quarter.

We remain optimistic on the year ahead as we focus on delivering value to our shareholders.

Thank you again for your time today.

Operator, please open the line for any questions.

Operator

Thank you. We will now be conducting a question-and-answer session.

Our first question today is coming from Graham Dick with Piper Sandler.

Graham Dick

I just wanted to start on loan growth. I heard your guidance there for low-single-digit growth, which, I guess, aligns with the last two quarters pretty well, but for the full year 2023, 10% is definitely slower; and then, also, for you to sort of frame that up with, I guess, what you see between your community markets and in the metro markets, because it sounds like the growth in the metro markets has been pretty strong, which is a little different than some of the metro-focused or headquartered banks in Texas. I'd just like to hear maybe what you are doing differently to grow loans faster there, and then also how the community banking payoffs might play into that low-single-digit growth.

Curtis Griffith

Yes, I think a lot of our growth, it's the result of making some great hires that we've done in some of those markets in the last couple of years, and all that's kind of coming to fruition. It is still a little more challenging to get the growth out here in some of the more rural markets, but we're seeing good activity, too.

I'm going to let Brent Bates kind of elaborate on that and what he kind of sees going forward a little here in '24.

Brent Bates

Last year, in 2023, we saw real strong growth in the first half and closer to that 3% the second half of the year. I think what we're expecting this year is still to see some tailwinds from our construction portfolio, advances in the first half of the year on the construction portfolio, which is predominantly multifamily and industrial projects in our metro markets, and still see some pullback in residential construction. We're still seeing good activity from our existing clients, even out in our rural markets. I think the low-single-digit growth for 2024 is realistic, it's attainable, and definitely 2024, I would expect to be much more of a smooth growth period than 2023 was.

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Cory Newsom

I think the other thing we've got to keep in mind is we're being much more selective about what we're willing to fund. We've had opportunities to look at a number of transactions that we've passed on. We don't think it's the right time on some of those for us right now, or for some of the clients. We have selectively pulled back a little bit, and we're okay with that.

Graham Dick

Just moving to the margin a little bit, it was flat quarter-over-quarter. I know you guys said that you're calling for a trough maybe in the first half of the year, and I was wondering if you'd be willing to maybe give an idea of where you see that trough. I mean, is that low 340s or is it just slightly below this level. I'm just trying to get an idea for the trends going forward given we saw flat margin quarter-over-quarter, and it seems like the rate environment should get a little bit better to start the year, but obviously still very competitive out there?

Steven Crockett

We were fortunate that we were able to keep it flat during the fourth quarter. We do continue to see pricing pressure, particularly on the deposit side. While we did increase the cost of deposits during the quarter, that rate of growth did slow down. We're prepared for that to still increase, but that overall growth has continued to slow down.

We hope there will be some relief in sight, depending on what they do with rates. Been a little bit of mixed messages in the first three weeks of the year so far, it seems like, looking like they're headed down and then kind of pulling back up a little bit. Not on ours specifically, but just when you look at the Treasury market and some other rates. We are hopeful that we can keep NIM close to where it is, a little bit of a drop. I hate to put any specific number out there, but, a five-basis-point drop, three to five, three to seven or so, something like that would not be unrealistic, but we're going to do everything we can to try to keep it close to where it is today.

Cory Newsom

I think one thing, though, this is the first quarter that we felt comfortable to start making minor changes in less rate-sensitive deposits throughout the Company, and so I think that really says a lot when you start looking at the fact that we finally feel comfortable to start making some minor rate reductions across the board. Now, those are going to be small and incremental and it's going to take a while for it to start really showing, but I think that says a lot if you kind of think about the fact that we're finally willing to start doing that.

Graham Dick

Staying here with the NIM, is some of the trough that's going to happen, or I guess the pressure in one half, is that because the fixed rate repricing is weighted towards the back half of the year? Did I hear that correctly?

Steven Crockett

We definitely have more of that repricing that will occur as we get to the second half of 2024. We have some going along, but it accelerates a lot more as we get to the second half.

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Curtis Griffith

One other point. This is the time of the year that our ag loans do pay down, and while in the big scheme of things it's not a significant number, it does move things a penny or two here and there, because most of those operating lines were priced up at current rates (inaudible) as we went through 2023, and they'll be priced at current rates when they renew and they start drawing up again in 2024, but there is a little drop there and it will be in some of our higher yielding notes that are out there right now.

Graham Dick

The last one is just more housekeeping. I just want to make sure I got the mortgage servicing rights adjustments correctly. You said that there was a $1.5 million mark this quarter, negative mark, compared to last quarter where it was a $700,000 write-up, that's the $2.2 million number, is really the delta between the two quarters, right?

Steven Crocket

Yes, yes.

Graham Dick

Okay, I just wanted to make sure I understood that correctly.

Operator

The next question today is coming from Brett Rabatin from Hovde Group. Your line is now live.

Brent Rabatin

I wanted to first just talk about the deposit initiatives. You talk quite a bit about stabilizing DDA, and I know you're hopeful for Treasury Management to possibly be a part of that. Can you guys maybe go through a little bit on the stabilization of DDA and what that entails in terms of product or strategy, how you're going to achieve that, and then just maybe talk a little bit about the growth of deposits and where you expect that to come from?

Cory Newsom

We've had this conversation, we talk amongst ourselves quite a bit. I mean, we'd like to sit here and tell you that Treasury has got a quarter-over-quarter just immediate change. It's not going to happen. You know what I mean? What we're trying to do is an overall initiative that chases the trends long term, and the way that we chase relationships. A lot of it's going to come back specifically around the lending relationships and making sure that we require much more emphasis on the deposit gathering. Historically, in the past, we've always had deposits at a bit of the forefront when we've looked at relationships, but we were never as picky about the type of deposits. Now, we've really changed that focus, incorporating that into the loan covenants that we have, requiring the full operating accounts, all of the things like that, that really come back around.

When we talked about continuing to step up delivery on the Treasury side, I mean, it's real. We've continued to tweak till we get Treasury leadership the way we really want it, and we're there. We're continuing to enhance our team, and we're focused on education with our lenders and out set better than we've ever been. It's not a sprint, it's a marathon, and one that I think that we're continuing to build it in the right way. That's the focus of our deposit initiative. It's all day long every day, looking at the value

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deposits, which ones are sticky, which ones really do mean core to us, and which ones that will ultimately help us drive profitability in the relationships.

Brett Rabatin

The other thing I wanted to ask about was the expenses going forward. Obviously, they've been managed well the past year, and maybe some of that's mortgage incentive compensation going down, which should probably revert some this year, as you indicated, but aside from the mortgage piece, are there pressure points, inflationary or otherwise, that would drive expenses in '24, relative to '23?

Steven Crocket

One other piece that we didn't specifically talk about earlier, but we did previously during the year, some of our technology initiatives that we've been working on during 2023, in particular, some of our transition to the cloud, we'll have some increased expenses. Some of that was just being built out, and some of it was infrastructure and different things, that we will start seeing some more depreciation on during the current year. There's always a little bit of inflationary pressures on some of the other items. I don't think we're looking to drastically increase non-interest expense absent mortgage, just changing a whole lot as far as volume and production, that would warrant that. Outside of that, we should be probably closer to the Q3 number. I think we were at about $31.5 million versus $30.6 million, I don't think we'll be quite that high, but the fourth quarter was definitely down a little bit more than probably what we'll see on a go-forward basis.

Cory Newsom

I think, to go along with what Steve was saying, I do anticipate the mortgage side actually picking up from the expense number in the second half. We're very much getting geared up for that because, we're kind of proud of the way we've managed mortgage through the last 18 months. I mean, we basically managed to a net zero. That's been our focus, to make sure we could keep capabilities in place, keep it nimble, like we've always said we would do. Now, we feel like that we'll be making sure that we've got the right productions in place to really take advantage of the stuff in the second half of the year.

Curtis Griffith

One more quick point, and again, I'm giving you a reason, not an excuse. As we have grown our team and added real high-quality people to that, we're doing so in what, to me, is probably the toughest, hardest market for banking talent that I remember in 50 years of doing this, and so to bring the people on that we're doing, which we know is the right thing to do, personnel cost is going to be what it is to get them and keep him, so there's just a little extra tightness right there. Over time, it's still going to generate a lot of good revenue for us and we've got to have the right people to do it, across all sectors, not just lenders, but it doesn't come cheap, and we're not going to lose sight of that.

Brett Rabatin

You guys mentioned M&A in the call and it sounds like you're somewhat optimistic that you'll see some activity and maybe you guys will be able to do a deal that makes sense to add to the platform. Can you guys talk about from here, you know some folks' strategies evolved and are now looking to maybe buy more rural franchises that are deposit funded versus metro markets. Can you guys just talk about what your M&A strategy would be from here from a geography perspective and what you'd look for a community bank to bring to your platform?

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Curtis Griffith

Brett, I'll stick with what I said, in the call, that we believe that we know what we're looking for, and that is a bank with the right culture. That's number one, because we're not going to try to make a culture that doesn't look like us fit in, we've seen too many failures with that. Excess liquidity, a stable deposit base and evaluation that makes sense. Well, if you look at excess liquidity and stable deposit base, to me, you're almost, by definition, in Texas, you're looking at more rural markets, so I think you're quite right, in that that's the way some other people are looking now, too. For so long, they weren't interested in banks out in smaller communities and now we've seen that pick up. So, yes, we've had some phone calls, we're going to have a few discussions. We're still not anywhere close to doing a deal, but if the right one comes along, and the right one also means in the right size, then we believe we've got the capital and we've got the people and we believe we can make it work, but after watching what we've seen right here in our Lubbock market, and the Permian, as well, in the past couple of years, we don't want to go down the road of having the kind of difficulties that we've seen from some other acquirers, and I'll just leave it at that.

Cory Newsom

It's kind of interesting, though, you talk about the fact that people are starting to recognize the value of some of these rural deposits. We always have. That's the thing that, back even when we went public in 2019, we had discussions around this. We've always seen the value of the rural deposits, and I think that probably puts us in a better position than a lot of the other ones that are just kind of changing their focus and looking at it. I do think that we're very good at it and we're very focused on being community-minded when we lead some of these rural markets.

Curtis Griffith

Yes, if you're going to do well in those smaller markets, you really have to understand that you have to be the hometown bank no matter where your headquarters are, and that's always been our philosophy in all of our smaller markets.

Operator

Our next question is coming from Mark Shutley from KBW. Your line is now live.

Mark Shutley

On the buyback, I know you guys continued that this quarter and sort of finished the current authorization. Do you still favor the buyback as sort of, you know, near the top of the list as far as priorities for 2024, and do you expect a new authorization coming?

Curtis Griffith

It's going to be a decision by the Board. I think, clearly, we were doing the right thing at the time in '23. We'll take a hard look at it. In fact, it'll probably be discussed in our February Board meeting and we'll decide where we think we ought to be for the year. As long as we have the capital levels that we do, if we collectively think we're trading at a level that makes that a good investment for our shareholders' money, then, yes, I think we'll reauthorize and have something out there, but right now, today, I can't give you any real firm metrics on it, but it is going to be a topic of discussion, for sure.

Obviously, in terms of priorities on things, we're going to be sure we have plenty of capital for organic growth, because we do think we'll get a chance to do some during the year, and we're going to keep paying a steady dividend. If a deal came along for M&A, we'd want to know we've got the dry powder to

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do that, but right in there at about that same tier is buyback of our existing shares, and as long as we think it's a good value for the money, we're not going to be bashful about doing it.

Mark Shutley

When you think about the NIM for 2024, what are the rate cut assumptions that you all are using when you think about those margin projections?

Steven Crockett

Again, it's a moving target, but as of right now, we've kind of just got two rate cuts baked in at this point. The end of first quarter, early second quarter would be kind of the first one, and then later, I think end of third quarter, the first of the fourth quarter is when we've got the second one. Again, the viewpoint on that can shift day-to-day sometimes. I know some people have got more, up to maybe four, have dropped, but at this point we're just kind of baking in two.

Operator

Thank you. Your next question is coming from Joe Yanchunis from Raymond James. Your line is now live.

Joe Yanchunis

Just to kind of piggyback off that rate question, what's your model sensitivity to a 25-basis-point rate cut, and as we think about that, what kind of deposit betas are you assuming on the way down?

Steven Crockett

As far as a 25-basis-point decline, I don't have the 25 here in front of me, but we definitely are liability-sensitive, but on the deposit side we've got about 20, I'd say close to 20% of the deposit book that is tied to the short-term rate, that would reprice down, most of that full 25-basis-point decline within 30 days or so, but the majority of our public fund book and our broker deposits, and then some of the other indexed accounts that we've got. For a full 1% drop, I think we're around a 3% increase to net interest income. Again, I don't have those down in front of me to the 25-basis-point level.

Curtis Griffith

One of the things that will be helpful for us on this is we have continued to be very reluctant on increasing our CD balances out there. We haven't been running any specials, or any of that. The bulk of our deposits are in transaction accounts, and we will be able to adjust those rates fairly quickly. Another factor, we've touched on Treasury Management, one that we can and will certainly move, because you can move it in very small increments, is our earnings credit rate. To the extent that we're using that on the Treasury Management side, we'll certainly be aggressive in trying to adjust those as rates might decline.

Joe Yanchunis

Asset quality, it's remained pretty strong throughout the December quarter. As we think about this next year, is there a potential as we move through the year and we hit this soft landing that we could start to see some reserve relief for you, which would be somewhat of a tailwind? Just kind of curious your thoughts of kind of provisioning year-over-year and the credit outlook.

Brent Bates

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You know, we're still seeing assets normalizing and occasional credits that have deteriorated. We're just working hard. I mean, where we wound up at the end of the quarter was because of the work we accomplished during the quarter of exiting some, retiring some, downgrading a few, so we're still seeing some activity coming in and out of there, and I think it really all depends on the long-term effect of the rate rise and how that moves through the economy. We still are modeling in our model some more stress than we have today in the overall economy. If we don't see that at some point in time, of course, we're going to reassess it, but right now we're still thinking there's still a chance of a little bit of volatility in the overall economy. When we move away from that thinking process, yes, there's a potential we would see some reversal out of there.

Cory Newsom

From our standpoint if we start seeing enough rate relief, our volume's going to pick up enough that we're probably going to offset that pretty quickly, from a growth standpoint. I would say this. While we would like to see relief in that, we are not dependent upon that where we try to grab earnings.

Curtis Griffith

I think you can count on us always leaning on the conservative side about what's in that reserve. It just lets everybody sleep a little better at night. There are metrics that do justify it. We're not seeing huge difficulties in our portfolio, but, as Brent said, when we spot something, we start working it right then, we don't let problems fester, because that usually doesn't end well. We will stay as conservative as reasonably possible, I'll say, in keeping reserve in there. If the mathematics really do indicate we need to pull some out, we will, but, as Cory said, the hope is that we get enough additional organic growth moving into 2024, that it'll use up any adjustments that would be related to the overall improvement in the economy. Purely speaking for myself, there's still a lot of unknowns out there and one of them is we've got an election coming this November and I don't know what the world's going to look like after that, so we're just going to err on the cautious side.

Cory Newsom

You know we're conservative and we're always going to under-promise and over-deliver whenever we can.

Operator

Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over to Curtis for any further or closing comments.

Curtis Griffith

Thanks, Operator. Thank all of you for joining our call this morning.

You've heard us discuss we are entering 2024 in a real solid position. We think we have some good opportunities for growth in the Bank. To highlight just a few of those one more time. We do have an improved Treasury Management Team, we think, that's going to drive both fee income and core deposit growth during the year. We are getting a gradual remixing of loan and securities portfolios into higher yielding loans, and, coupled with what we expect is low-single-digit loan growth, if the Texas economy remains healthy, we'll drive our net interest income growth.

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As we've touched on multiple times, mortgage has certainly been challenging over the last several months, but we remain positioned to handle some improving volumes, and I think we're getting a buildup out there of needs for some financing that is going to start breaking loose as rates begin to come down. We're going to be well positioned for that. Most importantly, the credit quality of our loan portfolio does remain solid.

So, I'm excited for the year ahead.

We thank you all for your time today and we hope to see you again soon. Thanks.

Operator

Thank you. That does conclude today's teleconference, you may disconnect your line at this time, and have a wonderful day. We thank you for your participation today.

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