South Plains Financial, Inc.

Second Quarter 2022 Earnings Call Transcript

July 22, 2022

CORPORATE PARTICIPANTS

Steve Crockett, *Chief Financial Officer and Treasurer*

Curtis Griffith, *Chairman and Chief Executive Officer*

Cory Newsom, *President*

CONFERENCE CALL PARTICIPANTS

Brady Gailey, *KBW*

Brad Milsaps, *Piper Sandler*

PRESENTATION

Operator

Good morning, ladies and gentlemen and welcome to the South Plains Financial, Inc. Second Quarter 2022 Earnings Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be opened 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. Please go ahead, sir.

Steve Crockett

Thank you, Operator, and good morning everyone. We appreciate your participation in our Second Quarter 2022 Earnings Conference Call.

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

A replay of this call will be available on our website within two hours of the conclusion of the call, until August 5, 2022. Additionally, a slide deck presentation to complement today's discussion is available on the News and Events section of our website.

Before we begin, let me remind everyone that this call may contain forward-looking statements and are subject to a variety of risks, uncertainties and other factors that could cause actual results to differ

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materially from those anticipated future results. Please see our Safe Harbor statement in our earnings press release that was issued this morning and on Slide 2 of the slide deck presentation available on our website. 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 press release and on Slide 22 of the slide deck presentation.

At this point, I'll turn the call over to Curtis.

Curtis Griffith

Thank you, Steve, and good morning.

On today's call, I will review the main drivers to our strong second quarter results, highlighted by robust organic loan growth, combined with stabilizing mortgage banking revenues, which, taken together, have increased the earnings power of South Plains as we look to the second half of the year. Cory will then discuss our loan growth in more detail as we expand our commercial lending capabilities in our major markets of Dallas, Houston and El Paso. Steve will then conclude with a more detailed review of our Q2 results.

Beginning on Slide 4, we delivered net income of $15.9 million, or $0.88 per diluted common share, for the second quarter of 2022, which compares to net income of $14.3 million, or $0.78 per diluted common share, in the first quarter of 2022, and $13.7 million, or $0.74 per diluted common share, in the year ago second quarter.

Our second quarter 2022 results benefited from $0.25 per share of income received related to four loan credits for the recovery of interest income on previously charged off credits, purchase discount principal recovery and prepayment penalties. We also had $0.11 per share from SBIC investment income and an increase in the fair value of our mortgage servicing rights. The total of these items was $0.28 per share, net of tax. As a reminder, our first quarter 2022 earnings included $0.28 per share, net of tax, of a positive fair value adjustment to our mortgage servicing rights and a negative provision for loan losses.

The strong earnings growth that we experienced in the second quarter was primarily driven by the 20.8% annualized increase in our loan portfolio, compared to the first quarter of 2022, as we continue to benefit from our newly hired commercial lenders who are building their loan portfolios more quickly than anticipated, combined with our existing team's continued focus on organic growth. As we enter the third quarter, we've largely completed our initial hiring plan, which we outlined a year ago, and remain very pleased with our lenders' initial success.

As Cory will discuss, we have the infrastructure in place in our major markets of Dallas, Houston and El Paso to support further expansion, given the significant growth potential that we believe exists as we strive to redeploy our low-cost deposits into higher yielding commercial loans. Additionally, we believe that we have ample liquidity to fund our growth given our comfort running the bank at a loan to deposit ratio in the mid to upper 80% range, as compared to our 75.3% at the end of the second quarter. This excess liquidity represents significant earnings potential as we continue to fund higher yielding loans over time.

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Importantly, our second quarter results mark a clear inflection point, as we believe that our mortgage banking revenues have largely moderated to more historical levels. As we have discussed on prior calls, we have expected our mortgage revenues to bottom at 10% to 15% of total bank revenues over time. In the second quarter, our mortgage banking revenue, excluding the large MSR fair value adjustments, was 14% of total bank revenue, which compares to 19% of total bank revenue in the first quarter of 2022, and 23% in the fourth quarter of 2021. Given current mortgage rates, we believe refinance volumes have largely bottomed, while demand for housing and construction remains robust given the strength of the Texas economy, which continues to enjoy strong in-migration and job growth.

Looking to the second half of the year, we expect the financial benefits of our strong second quarter loan growth to continue to flow through to the bottom line as our mortgage revenues stabilize, combined with our plans to continue to redeploy our excess liquidity. Taken together, we believe this will continue to improve the earnings power and value of South Plains, which we believe is not currently reflected in our share price.

Given our view that our shares are trading below intrinsic value, we increased the pace of our share repurchases through the second quarter of 2022, having repurchased approximately 257,000 shares, as compared to 106,000 shares in the first quarter of 2022. We will continue to strategically utilize our share repurchase plan, while steadily returning capital to our shareholders through our quarterly dividend, as our Board authorized a $0.12 per share dividend this week, which is a $0.01 per share increase from the prior quarter's dividend. This will be our fourteenth consecutive quarterly dividend, to be paid on August 15, 2022, for shareholders of record on August 1, 2022.

To conclude, we continue to experience healthy loan growth across our markets as the Texas economy continues to deliver employment and GDP growth above the national average. While we expect activity to slow in light of the continued uncertainty about future economic conditions due to the rising interest rate environment and persistent high inflation levels, we remain cautiously optimistic on the second half of the year, as our loan pipelines remain healthy and our new lenders continue to have success in bringing quality credits to the Bank. This provides confidence in our meeting, or exceeding, our mid- to high-single-digit loan growth guidance for the full year of 2022. That said, we will not sacrifice credit quality for growth and will remain vigilant to ensure that we maintain our disciplined credit culture, which can also be seen in this quarter's results, as our credit metrics continued to improve.

Now, let me turn the call over to Cory.

Cory Newsom

Thank you, Curtis, and good morning, everyone.

As Curtis touched on, loans held for investment increased by $126.9 million, or 20.8% annualized, compared to the first quarter of 2022, as outlined on Slide 5. Underlying loan demand was even stronger given the payoff of a $46 million relationship in the energy sector, which we discussed last quarter, combined with a $21.3 million reduction in PPP loans due to SBA forgiveness and repayments. Loan growth this quarter was primarily in commercial real estate, commercial retail, residential mortgage and consumer auto.

Excluding PPP loans, our loan yields in the second quarter were 5.47%. Excluding the large loan recoveries and prepayment penalties which we benefited from in the second quarter, our loan yields were 4.77%, which compares to 4.74% in the first quarter of 2022. We have made a deliberate decision to proactively price new loans to account for a higher rate environment and the eventual rise in funding costs to ensure we stay ahead of the market, while trying to stay competitive.

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Turning to Slide 6, it is also important to highlight that we are a community retail bank in our smaller markets and primarily a commercial bank in our major markets of Dallas, Houston and El Paso. Our strategy is to redeploy our excess liquidity consisting of low-cost deposits from our community-oriented markets into our commercial markets. To accomplish this, we have added experienced commercial lenders who share our culture and values, and who focus on developing long-term customer relationships done the right way. Our loan growth this quarter is a validation of our strategy, as our new commercial lenders have quickly grown their portfolios and are reaching breakeven ahead of our original expectation of six months, on average, while our seasoned bankers continued to deliver solid organic loan growth.

A good example of our commercial lending strategy is in Houston where we have added a new market leader and two experienced lenders over the last year. Our new team has quickly built their pipelines and started to generate meaningful business. In the second quarter, our Houston team grew their loan portfolio approximately 122%, compared to the end of the first quarter of 2022, which was primarily in commercial real estate. Additionally, our new lenders share our focus on developing long-term customer relationships, which can be seen in the type of business that they are generating as they bring new relationships to South Plains that include deposits, commercial loans, and other services, like Treasury management. Overall, we grew total loans 28% in our major markets of Dallas, Houston and El Paso during the second quarter, combined, as can be seen on Slide 7.

Another region that we continue to be very excited about is the Permian Basin, given the commercial lending and deposit opportunities that we see in the region. While it has taken time for us to install the right leaders and attract experienced lenders, we believe our team is now in a good position and starting to deliver results. This can be seen in the region's underlying loan momentum during the second quarter, despite the previously mentioned payoff of a large relationship that moved to a non-bank structure. We continue to believe that we can double our loan portfolio in the Permian Basin over time as we focus on developing private banking relationships, while also growing our C&I loan portfolio. Importantly, our building momentum in this market is tied much more to our improved execution than the benefits of a stronger commodity environment. We believe there is significant low-hanging fruit within our current customer base, as well as the opportunity to take market share.

Skipping ahead to Slide 9, we also saw healthy loan growth in our community markets across the South Plains region, as we continue to benefit from focused organic growth in various portfolio sectors. Our indirect auto loan portfolio increased by $40.8 million to $280.4 million in the second quarter of 2022, as compared to the first quarter of 2022. This was due to continued strong demand for car loans and the addition of a few high-quality auto dealerships to our customer base. Importantly, we've maintained a disciplined approach to underwriting, as 78% of the indirect auto loan portfolio has a credit score of 690 or better. This strong credit profile positions the portfolio for resilience across varying economic cycles.

Along those lines, remaining disciplined on credit is ingrained in our culture and has been a focus of our recent hiring, as we continue to add seasoned professionals from larger banks to our loan review team and underwriting staff. We've also implemented a loan approval process to include our regional presidents, which we believe has further improved our underwriting process.

Turning to our mortgage business, on Slide 10, mortgage loan originations decreased 12% to $207 million in the second quarter of 2022, as compared to the first quarter of 2022. We continue to aggressively manage our business for profitability, having reduced lenders and back-office staff. This has been a deliberate effort over the last year, as mortgage volumes have steadily declined and now appear to have bottomed, as Curtis noted.

Turning to Slide 11, we generated $18.8 million of non-interest income in the second quarter of 2022, compared to $23.7 million in the first quarter of 2022. The decrease was primarily due to a $5 million decrease in mortgage banking activities revenue. For the second quarter of 2022, non-interest income

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was 34% of Bank revenues, which is a decline from 44% in the first quarter of 2022. As our mortgage banking revenues begin to trough and stabilize, so will our non-interest income. We have aggressively managed our mortgage business through this down cycle and believe that the headwinds that we have faced are now largely behind us, which positions the Bank for improved earnings growth looking to the second half of this year.

To conclude, our organic growth strategy has been deliberate and focused, as we add experienced commercial lenders in our major MSAs where we have the infrastructure in place and can quickly scale. Our MSAs represent large market opportunities for commercial loan growth, as well as other services, and we will continue to selectively add to our team to further build our presence in these markets. While loan demand has remained robust, we have experienced a moderation as the Federal Reserve continues to raise their target benchmark interest rate. We remain cautious, but optimistic, looking to the second half of the year, as cash balances remain healthy for both our business and consumer customers, and we continue to see healthy cash levels go into new deals.

I would like to now turn the call over to Steve.

Steve Crockett

Thank you, Cory.

Starting on Slide 13, net interest income was $37.1 million for the second quarter of 2022, as compared to $29.9 million for the first quarter of 2022. The increase since the first quarter was primarily due to a $6.1 million increase in loan interest income and a $1.6 million increase in interest income from securities and other interest-earning assets. As Curtis touched on, we benefited from $4.4 million of large loan recoveries and prepayment penalties during the second quarter. The remaining increase of $2.8 million was a result of our loan growth, liquidity redeployment and rising interest rates.

Looking forward, we continue to believe that we are well positioned for our net interest income to benefit as we grow our loan portfolio and benefit from the anticipated rise in interest rates through the year.

During the second quarter of 2022, we recognized $898,000 in PPP fee income as an adjustment to interest income, which included accelerated income on PPP loans forgiven by the SBA. At June 30, 2022, the Company had $401,000 remaining in deferred PPP fees, the majority of which are expected to be recognized as PPP loans continue to be forgiven by the SBA or repaid over the next several quarters.

Our net interest margin, calculated on a tax-equivalent basis, was 4.02% in the second quarter of 2022, as compared to 3.33% in the first quarter of 2022. Excluding the $4.4 million of large loan recoveries and prepayment penalties that we recognized in the second quarter, our net interest margin was 3.54%, up 21 basis points, as compared to the first quarter. This improvement was driven by our strong organic loan growth, combined with the rising rate environment.

Our average cost of deposits was 27 basis points, an increase from 23 basis points in the first quarter. The increase was primarily attributable to our intentional lag to increase our deposit rates as the Federal Reserve continues to raise their target benchmark interest rate.

Turning to Slide 14, total deposits decreased by $24.3 million to $3.43 billion, as compared to the first quarter of 2022. The decrease was primarily due to customers withdrawing deposits to make large tax payments during the quarter. Importantly, we saw outflows early in the quarter which stabilized and turned back to inflows as we moved through the second quarter. We also experienced a positive mix shift in our deposit base as non-interest-bearing deposits increased to 34.9% of total deposits, as compared to 32.8% in the first quarter of 2022.

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Turning to Slide 15, we continue to believe that our loan portfolio remains appropriately reserved, as our allowance to total loans was 1.54% at June 30, 2022, as compared to 1.62% at March 31, 2022. During the second quarter, we did not record a provision for loan loss, as we continued to experience improving credit metrics in our loan portfolio, as non-performing assets to total assets declined to 20 basis points in the second quarter from 30 basis points in the first quarter of 2022. These improvements were offset by our loan growth during the quarter. Additionally, we subsequently received a full payoff of an approximately $10 million classified hotel credit in July, which further improves the credit quality of our portfolio. Nevertheless, there is continued uncertainty about future economic conditions due to the rising rate environment and persistent high inflation levels, and additional or reversal provisions for loan losses may be necessary in future periods.

Skipping ahead to Slide 17, our non-interest expense was $36.0 million in the second quarter of 2022, as compared to $37.9 million in the first quarter of 2022. The decline was primarily due to a decrease of $1.3 million in commissions and related personnel expense and other variable mortgage expenses due to the contraction in loan originations in the mortgage market, partially offset by higher costs related to new hires in commercial lending and incentive-based compensation. Looking to the third quarter of 2022, we expect non-interest expense to be in line with to slightly better than the second quarter of 2022.

Moving ahead to Slide 19, we remain well capitalized, with tangible common equity to tangible assets of 8.59% at the end of the second quarter of 2022, a decline from 9.11% at the end of the first quarter of 2022. The decline was mainly driven by a $31 million change in the fair value of our available for sale securities and related fair value hedges, net of tax, partially offset by net income after dividends paid of $14.0 million. The decline in fair value of securities was a result of the rising interest rate environment. Book value per share decreased by $1 to $20.90 during the second quarter 2022.

I will now turn the call back to Curtis for concluding remarks.

Curtis Griffith

Thank you, Steve.

To conclude, our second quarter results represent an inflection point in our business, as our lending team is driving strong organic loan growth, while our mortgage business has declined from historic highs to more traditional levels. Looking forward, we believe the earnings power of South Plains is set to improve as our newly hired lenders drive commercial loan growth in our major markets, while our lenders in our community markets continue to add loans from both new and existing relationships. Importantly, we have remained focused and disciplined on credit, which positions the Bank to weather storms that may occur as a result of the Fed's current tightening policy and the persistence of the inflationary environment in the United States. I am very pleased with the success that we have achieved through the second quarter and am filled with optimism for the future of South Plains, given the many opportunities for growth that lie ahead.

I would like to thank our employees for their hard work, for none of this would be possible without their commitment to the Bank and our customers.

Thank you again for your time today.

Operator, please open the line for any questions.

Operator

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Our first question comes from the line of Brady Gailey with KBW. Please proceed with your question.

Brady Gailey

Thank you. Good morning, guys.

Curtis Griffith

Good morning, Brady.

Steve Crockett

Good morning.

Brady Gailey

You all showed some pretty good expense control the second quarter. It sounds like the third quarter is going to be in line or better than 2Q. I know in the past, we've talked about expenses being up kind of low- to mid-single-digit, but it seems like you guys may be able to hold expenses flat this year, relative to last year. Is that the better way to think about it now?

Curtis Griffith

Steve?

Steve Crockett

Yes, Brady, this is Steve. I would agree with that. Again, a lot of what we had in the past was on the mortgage side, and as that has come back down, those variable expenses on that side have dropped and we've been able to control that a little better. So, that's how we're forecasting it at this point, relatively flat.

Brady Gailey

Okay, and then quite the loan growth quarter here, even losing that $45 million energy loan, that's great to see. I know in the past, you've talked about kind of the mid- to high-single-digit loan growth. It sounds like you all can do better than that. But, maybe just kind of how you're thinking about the back half of this year, and next year, especially, as we potentially head into a recession, would that cause you to hit the brakes at all on booking some of this loan growth?

Curtis Griffith

You kind of just answered your own question. I really think if things run as they're going today, yes, we're probably going to be at the high end of our range, or better, for '22. Right now, I'd just say we're cautiously optimistic about that, but a sharp cooling of the national economy could make getting any loan growth very difficult. That's all we're saying, is let's see what happens with all the rate increases and how much the tightening really does affect everything, because a true recession is going to make things tough out there. That's the reason we're still not trying to jump up and say we're definitely hitting double-digit growth just yet.

And '23, yes, my personal opinion, I think we could be at least a mild recessionary environment by then. I think we'll still get loan growth. We've got a great team in place, we're getting great results out of both our new lenders and our more seasoned ones that have been with us a long time, and the Texas economy is

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still just great, but there's some potential dark clouds on the horizon and I think we've got to not get overly optimistic.

Cory, any comments?

Cory Newsom

Yes, and I agree with Curtis, but one thing that if you look at our pipeline its really, really strong. We've always said we're going to keep this Bank positioned in a recession to be opportunistic with some stuff that's out there. I mean, you know, we don't want to be overzealous in what we think can happen, but we're pretty positive.

Brady Gailey

All right. Then, finally, for me, just on the share buyback, you had a nice step-up in activity in the second quarter. Should we view this as kind of the new run rate from here, or was 2Q just an especially strong quarter for the buyback?

Curtis Griffith

Well, the way our Board looks at it, we do have our kind of internal metrics on valuation of our stock, and as long as we believe it is undervalued, we're going to keep buying it back. We've got our levels that the Board's comfortable with and we're not terminating the plan.

Steve Crockett

Brady, I would just add, we did have the opportunity to look at a couple of larger block transactions during the quarter on that. When we can take advantage like that, we'll continue to do that, but we don't necessarily know how often those come up.

Curtis Griffith

But those did kind of skew our second quarter numbers, as Steve pointed out, because there were a couple of block purchases in there, that the opportunity arose and the price was right, so we took advantage of it, and we will do so in the future.

Brady Gailey

Okay, that's great color. Thanks, guys.

Steve Crockett

Thank you.

Cory Newsom

Thanks, Brady.

Operator

Our next question comes from the line of Brad Milsaps with Piper Sandler. Please proceed with your question.

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Brad Milsaps

Hey, good morning, guys.

Curtis Griffith

Good morning, Brad.

Cory Newsom

How are you doing?

Brad Milsaps

I'm doing well, thanks. Thanks for taking my question. Cory, I apologize if I missed this in your prepared remarks, but I was just curious where you guys are in terms of the number of lenders you've hired. I think you were targeting 20 at one point. I think you had been roughly halfway there. I'm just kind of curious what that number was, and I apologize if I missed that in your prepared remarks.

Cory Newsom

Yes, I don't think we actually put the actual number there. We're basically at the finish line on that. We're not stopping on the hiring, by any stretch, but we've probably hit the 18, 19 number range on where we were, but we've still got quite a bit of stuff that we're working on and feel very confident about it.

Brad Milsaps

Okay, great, and it sounds like those folks are just now hitting their stride, based on kind of what you said, in terms of the annualized growth coming out of Houston. I'm sure those folks that you brought in still have plenty of capacity.

Cory Newsom

Yes, Houston's a great example, but it's by no means an anomaly for us. If you look at all of the metro—we talk about the metro markets, but we can't ever forget about the South Plains, I mean, the things that we've been able to accomplish here just as well. We like the markets that we're in and we've been able to pick up really good talent, but, as we've said all along, it's a pretty rigorous effort that we go through before we actually bring somebody on because we want to make sure that they have the same culture as we do, and so it's worked out. When you look at the way we've been able to measure those and see how quickly they're turning to a breakeven and then profitable, it's been very, very good for us.

Curtis Griffith

Specifically, in the Houston and Permian markets, we do have still fairly new, I'll say, leadership in place there, and those changes have allowed us to bring on some great other additional lenders in those, but we're going to continue to hire good lenders in any market we're in, that's still a key part of our long-term business strategy. This was just a period for a, I guess, faster than usual ramp-up, maybe, in hirings, and it's working out really well for us. These lenders have come on and brought some great customer relationships with them, and we think there's still a lot of room to run in those relationships, but that doesn't mean we're not going to still be hiring good people, we're not stopping on that.

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Cory Newsom

We've taken some approaches with expenses. If you look at some of the metro markets we're in, we've just gone and added square footage in exiting properties, just to be able to expand those without bringing in all the other overhead that comes with it. So, it's been a really good program that we've put into play. But, I will tell you, we've never not been in the hiring business and very much focused on the way we've done it and keep moving forward.

Brad Milsaps

Great, that's helpful, and, Steve, just maybe one to touch on the margin a little bit. You had nice core expansion this quarter. I think pre-COVID, you guys were kind of in the high threes, close to four. Obviously, the bond portfolio is a little bigger now. But just kind of curious kind of how you see you guys benefiting from continued rate hikes in terms of margin expansion.

Steve Crockett

Yes, we've historically been slightly asset sensitive. We still are. We're probably just a little bit less asset sensitive than we were at the end of last quarter, based on the loan growth and some of the securities purchases, but we did show good expansion in NIM during the quarter, even factoring in the large items that came through. We hope to keep that healthy NIM. It's probably going to be a little bit lower than where it was a couple years ago. There's definitely a lot of competition out there on the loan side, so while rates have gone up, competitively, the loan rates may be down a little bit on that side.

I would add on interest expense, we did see an increase there. It only showed up slightly for Q2. That'll be a little bit more in Q3, just based on the timing of when we did some of those increases in rates. That was probably toward the middle to the last part of June. So, interest expense will be up a little bit more next quarter.

Cory Newsom

This is Cory. We're also trying to be very proactive about how we approach that. I mean, we're rolling out some deposit products in some markets that we've not had some specific products in those markets, that we think will help us manage that better. So, we're kind of excited about that.

Curtis Griffith

I might give a little more color, too. We're seeing very wide disparity right now in our markets in—at least some of our markets—in deposit rates, especially for CDs, but so far, most banks in our markets are trying, just like we are, to maintain a very favorable beta between the rate we're seeing on the Fed increases and actual deposit rates. If everybody stays that course, we are going to see increased deposit rates, but I don't think it's going to be anything dramatic.

Brad Milsaps

Great, and just maybe a final question for me. I know these aren't large numbers, but it looks like your insurance business is tracking at least through the first six months of the year, maybe up close to 30% year-over-year. I know in the third quarter; it takes another leg up due to some payments that you receive. But usually, that business is kind of a 9%, 10% grower. Is this just a function of a harder market in insurance? Are you doing anything differently there? Just kind of curious kind of what's driving the increased—again, not huge numbers, but every little bit helps.

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Cory Newsom

This is Cory, and Steve will probably have some color to add to this, but one of the things, those cycle between when the premiums and stuff come in and as claims are filed earlier, and we've had some of that happening with lack of rainfall in some of our markets. That's how those track, but I don't think it's anything out of the ordinary. I think it'll probably stabilize the end of the year.

Steve Crockett

I would agree. Some of that is a little bit just timing issues. We have, probably, a couple, very small acquisitions that were done last year that could have just incrementally added to some of the revenue numbers, but the expense side on those would be up a little bit, as well, so shouldn't be anything significant on insurance.

Curtis Griffith

A little more clarity. Our insurance business, remember, is federal crop insurance business, so it does not run in the cycles of traditional P&C, or anything like that, as far as hard markets, or whatever. It's a standardized rate. As Cory mentioned, I think one of the things, other than we did pick up a couple of agency acquisitions that helped a little this spring, but in our very dry conditions out here right now, we have some farmers that are collecting on crop insurance earlier than they would in a normal year, and other than we don't get the fundings we might like to have on our ag loans, we don't really have any credit risk there. These guys are going to do well based on the returns on their coverage, but that allows us to recognize that income on the premium side, because those policies are now fully paid up and actually the farmers have received their benefits from them.

Brad Milsaps

Great, thank you, guys, appreciate all the color.

Steve Crockett

Thank you.

Cory Newsom

Thank you.

Curtis Griffith

Thanks, Brad.

Operator

We have reached the end of the question-and-answer session. I'll now turn the call back over to Curtis Griffith for closing remarks.

Curtis Griffith

Thank you, Operator

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Just to summarize, we're very pleased with our second quarter results. It has been driven by some strong loan growth from both our new lenders and our existing team. We believe that our mortgage business has now returned to more historical levels and seasonal cycles, as it always has, so we think that we're not going to see anything that will negatively impact us moving into the second half of the year from that. Our Texas markets continue to be very strong, very robust economic growth, and we tend to try to take advantage of those opportunities where we can. We also see opportunities to grow the Company as we expand both our community markets across the South Plains, as well as in our major markets of Dallas, Houston and El Paso. It's a good time to be in Texas banking and we're going to focus very hard on our organic growth in our footprints that we have, grow market share, and put more dollars to the bottom line.

With that, we thank you for your time today and please reach out to us if you have any questions.

Operator

This concludes today's conference and you may disconnect you lines at this time. Thank you for your participation.

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