South Plains Financial, Inc.

Third Quarter 2024
Earnings Call Transcript

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Brett Rabatin, *Hovde Group*

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Joseph Yanchunis, *Raymond James*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the South Plains Financial, Inc. Third Quarter 2024 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 conference over to Steve Crockett, Chief Financial Officer and Treasurer of South Plains Financial. Please go ahead.

Steve Crockett

Thank you, Operator, and good afternoon, everyone. We appreciate you joining our earnings conference call.

With me here today are Curtis Griffith, our Chairman and CEO; Cory Newsom, our President; and Brent Bates, the Bank's Chief Credit Officer.

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

Before we begin, I'd like to 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 materially from those anticipated future results. Please see our Safe Harbor statement in our earnings press release and in our 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 financial measures, which we believe are useful in evaluating our performance. A reconciliation of these non-GAAP financial measures to the most comparable GAAP financial 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 afternoon.

I'm pleased with our third quarter results, which I believe demonstrate that the Bank is performing at a high level. We remain well capitalized and focused on managing our loan portfolio as the credit environment continues to normalize.

Against this backdrop, we are maintaining our credit discipline and not stretching to chase loan growth. We are also building liquidity as we expect the Federal Reserve to continue reducing their market interest rate to stimulate economic growth in the year ahead. Looking forward, we remain confident in the credit profile of our loan portfolio and are cautiously optimistic that we will see loan growth accelerate in the quarters ahead.

Turning to Slide 4 of our earnings presentation, we delivered third quarter diluted earnings per share of $0.66, which is in line with the second quarter of 2024. I would like to point out that our third quarter earnings were negatively impacted by $0.03 per share after tax for the following items: $0.06 from the decrease in the fair value adjustment of our mortgage servicing rights, or MSRs, given the decline in interest rates from the linked quarter, partially offset by $0.03 for a gain from insurance proceeds received in the quarter.

Loans held for investment declined by approximately $57 million during the third quarter because of loan payoffs and the continued managed decline of our indirect auto portfolio. As Cory will touch on in more detail, we've been disciplined on new loan pricing in our indirect auto portfolio, which has resulted in the portfolio declining by more than $50 million over the course of 2024. Importantly, we believe the portfolio is beginning to stabilize, which should remove this headwind into the year ahead.

Overall, we are seeing a level of optimism from our customers that we have not seen for the last seven to eight quarters. In fact, our new business production pipeline is the strongest that it has been in more than two years, which bodes positively for loan growth in the year ahead. The credit quality of our loan portfolio also remains solid as we have seen no adverse trends over the third quarter as we maintain our high credit standards.

Additionally, we have an agreed resolution in place on the multifamily loan in Houston that we placed on non-accrual last quarter that includes credit enhancements. The loan is continuing to pay as agreed, which is a positive sign.

Overall, we remain cautiously optimistic. We believe our loan portfolio remains well positioned for varying economic conditions. Additionally, the Federal Reserve's 50 basis point reduction in their market interest rate in September has helped to improve customer sentiment and our lenders are having more positive conversations. As the Federal Reserve is expected to continue to reduce their market interest rate over the coming quarters, we believe economic growth will improve through the first half of 2025, which in turn will accelerate loan growth.

Turning to deposits, we had good success in the third quarter, driving deposit growth. For the third quarter, deposits increased approximately $95 million, or more than 10% annualized as compared to the linked quarter. We continue to benefit from the dislocation in our markets as a result of competitor mergers, which has created customer dissatisfaction with respect to a number of our competitors. At South Plains, we remain focused on our customers as we strive to build long-term relationships, and our customers value the stability and consistency that they know they can rely on at City Bank.

Our strong customer satisfaction can also be seen in our deposit share, where South Plains is number one in the Lubbock market with an 18% deposit share at June 30, 2024. The number two competitor in the market has a 14% share, while the number three competitor has a 12% share. We now hold a $454 million lead over our nearest competitor in Lubbock, which is the largest in our history. Likewise, across our rural Texas and New Mexico markets, we hold strong number one or number two deposit share positions in many of our markets, which speaks to our strong and stable community based deposit franchise that will provide the necessary liquidity as we look to improving loan growth in the year ahead.

We also believe that we are in excellent position to capitalize on opportunities to drive growth as the Bank and the Company each significantly exceed the minimum regulatory levels necessary to be deemed well capitalized. At September 30, 2024, our consolidated common equity Tier 1 risk based capital ratio was 13.25% and our Tier 1 leverage ratio was 11.76%. Additionally, our loans held for investment to deposit ratio stood at 82% at quarter end. Given our capital position, we remain focused on both growing the Bank while also returning a steady stream of income to our shareholders through our quarterly dividend.

This past week, our Board of Directors authorized a 7% increase to our quarterly dividend to $0.15 per share. This will be our twenty-second consecutive quarterly dividend to be paid on November 12, 2024, for shareholders of record as of October 28, 2024. We also have a $10 million stock repurchase program in place which our Board authorized in February. During the quarter, we repurchased 40,000 shares. We expect our buyback activity to remain more muted as we balance liquidity for growth as well as being mindful of the continued economic uncertainty that exists and the continued improvement in our share price. Additionally, we expect community bank M&A activity to pick up in the coming quarters as the unrealized securities losses on bank balance sheets decline with the drop in interest rates.

While we continue to have discussions and are watching the market closely, any potential deal needs to meet a high hurdle for our team to even consider it. First and foremost, there needs to be a strong cultural fit as we do not want to repeat the mistakes of our peers, which have created so much opportunity for South Plains over the last few years. Any potential acquisition would also need to have minimal dilution, a reasonable earn back and make real sense for the Bank and our shareholders.

To conclude, our third quarter results demonstrate that the Bank is doing well and is positioned, we believe, to drive organic growth across both our community and metropolitan markets while being well prepared for varying economic conditions as we have proactively managed the credit quality of our loan portfolio to ensure we are staying ahead of any challenges. I remain excited for the many opportunities that lie ahead.

Now let me turn the call over to Cory.

Cory Newsom

Thank you, Curtis. Good afternoon, everyone.

Starting on Slide 6, our loan portfolio declined by $57 million to $3.04 billion in the third quarter as compared to the linked quarter. As Curtis touched on, we experienced several large payoffs as well as the continued managed decline of our indirect auto portfolio. Additionally, the homebuilders in our markets have been disciplined through the year, having reduced their building and carefully managing inventories. We feel very good about the level of home inventories in our markets and believe construction levels are stabilizing along with balances in our indirect auto portfolio. The yield in our loan portfolio was 6.68% in the third quarter, up eight basis points as compared to 6.60% in the linked quarter.

Moving to Slide 8, loans in our major metropolitan markets of Dallas, Houston and El Paso declined by $20 million in the third quarter to $1.05 billion. This was largely a result of two large loan payoffs totaling approximately $23 million, which impacted the growth and balances this quarter. At quarter end, our major metropolitan loan portfolio still represented 34.5% of our total loan portfolio, demonstrating the scale that our lenders have achieved.

Turning to Slide 10 our indirect auto loan portfolio declined $19 million to $235 million at the end of the third quarter. As we have discussed, we are carefully managing the portfolio with a focus on maintaining its credit quality as competitors continue to be more aggressive at the higher end of the credit spectrum, while volumes have declined. Overall, the credit quality of the portfolio remains strong with 30 plus days past due at 34 basis points, a modest rise from the 21 basis points in the second quarter. Looking forward, we expect the decline in our indirect portfolio to begin to stabilize over the next several quarters as interest rates continue to decline and industry volumes improve.

For the fourth quarter, we expect our loan growth to be relatively flat as we typically see agriculture loans begin to pay off seasonally and could continue to see an elevated level of loan payoffs. Importantly, the underlying momentum in our business is building. Our customers are becoming more optimistic and activity is accelerating. This can also be seen in our new business pipeline, which is at its highest level since the middle of 2022. This, combined with the significant headwinds to our growth beginning to diminish, provides optimism for the pace of loan growth in 2025.

Turning to Slide 11, we've generated $10.6 million of non-interest income in the third quarter as compared to $12.7 million in the linked quarter. This was primarily due to a $1.5 million decrease in mortgage banking revenues, mainly from a $1.4 million decrease in the fair value adjustment of our MSRs as interest rates declined in the quarter. We also experienced a decrease of $750,000 in bank card services and interchange revenue, mainly as a result of incentives received during the second quarter and a decrease of $315,000 in income from investments in small business investment companies. These decreases were partially offset by $700,000 of non-recurring insurance proceeds received in the third quarter.

Overall, we have effectively managed the decline in mortgage volumes, having kept the business running at or near a breakeven pace at the trough of the cycle through disciplined expense management. We believe our mortgage business is well positioned to take advantage of the eventual pickup in residential purchase volumes as rates decline.

We are also seeing the success from the expansions we have made in our treasury management team to meet the customer demand that we see across our markets. In the third quarter, our treasury management team contributed to our deposit growth that we experienced while also helping with more than 18% year-over-year growth in deposit service charge fee income through commercial account analysis.

For the third quarter, noninterest income was 22% of Bank revenues as compared to 26% in the second quarter. Continuing to grow our noninterest income remains a focus of our team.

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

Steve Crockett

Thanks Cory.

For the third quarter, diluted earnings per share was $0.66, unchanged from the linked quarter. As Curtis noted, our third quarter earnings were negatively impacted by $0.03 per share after tax for the MSR adjustment net of the non-recurring revenue item.

Turning to Slide 13, net interest income was $37.3 million for the third quarter as compared to $35.9 million for the linked quarter. Interest income increased $2.4 million in the third quarter as compared to the linked quarter, primarily comprised of increases of $934,000 in loan interest income and $1.5 million in interest income on other interest earning assets. The growth in loan interest income was due to a rise of 8 basis points in the yield on loans, partially offset by a decrease in average loans of $13 million.

Our net interest margin, calculated on a tax equivalent basis was 3.65% in the third quarter, as compared to 3.63% in the linked quarter. The two basis point increase to our NIM was primarily due to higher loan yields that more than offset the rise in our cost of deposits. Of note, our noninterest-bearing deposits modestly increased through the third quarter to 26.9% of total deposits as compared to 26.3% in the linked quarter.

As outlined on Slide 14, deposits increased by $95 million to $3.72 billion at September 30. Our average cost of deposits was 247 basis points in the third quarter, an increase of four basis points from the linked quarter.

Turning to Slide 15, our ratio of allowance for credit losses to total loans held for investment was 1.41% at September 30, 2024, an increase of one basis point from the end of the prior quarter. We recorded a $495,000 provision for credit losses in the third quarter, which was largely attributable to net charge-off activity, partially offset by decreased loan balances during the quarter.

Our nonperforming loans totaled $24.7 million at the end of the third quarter, a slight increase from $23.5 million in the second quarter. Over 80% of the third quarter total is the $20 million multi-family loan on nonaccrual that Curtis discussed.

Skipping ahead to Slide 18, our noninterest expense was $33.1 million in the third quarter, as compared to $32.6 million in the linked quarter. The $556,000 increase was largely the result of a rise of $226,000 in net occupancy expenses, primarily from increased utilities and growth of $155,000 in marketing and development expenses. Looking ahead to the fourth quarter, we expect noninterest expense to be relatively flat compared to the third quarter's level.

Moving to Slide 21, we remain well-capitalized with tangible common equity to tangible assets of 9.77% at the end of the third quarter, an increase of 33 basis points from the end of the second quarter. Tangible book value per share increased to $25.75 as of September 30, 2024, compared to $24.15 as of June 30, 2024. The growth was primarily driven by a $16.6 million improvement in accumulated other comprehensive income as the fair value of available for sale securities increased, coupled with $8.9 million of net income after dividends paid.

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

Curtis Griffith

Thank you, Steve.

To conclude, I am very proud of our third quarter results. We remain well capitalized and focused on managing our loan portfolio as the credit environment continues to normalize. We have taken proactive steps to ensure we maintain the credit quality of our loan portfolio, which we believe continues to be well-positioned for varying economic conditions.

We have also built liquidity to take advantage of what we believe will be accelerating economic activity and loan growth as interest rates continue to decline in coming quarters. Overall, I believe we are well-positioned to continue to grow the Bank, and I remain very optimistic on the future for South Plains.

Thank you again for your time today. Operator, please open the line for any questions.

Operator

Great. Thank you. At this time, we'll be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two to remove yourself question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Our first question is from Brett Rabatin from Hovde Group. Please go ahead.

Brett Rabatin

Hey, good afternoon, everyone. Wanted to start on deposits; this was the first quarter in a year, DDA in the period up linked quarter. I think, treasury helped fees 18% year-over-year, but I didn't hear how much treasury helped DDA. Any thoughts on seasonality in DDA and your outlook on perhaps lowering the cost of funds from here as rates decline?

Cory Newsom

Hey, Brett, this is Cory. I'll kick it off, and I figure Steve's going to come in and help me out with this a little bit. But I think one of the things that's really contributed to our DDA balances being up is we continue to have more requirements on the loans and the lending relationships we have on require the deposit relationship being right here at the Bank, and we're really seeing some outcomes come from that.

I think one thing, I want to really give treasury the right context around it. What treasury does is really help us deliver the right kind of service and make sure that we continue to deliver to our clients the best way to do business with us. But our lenders have really done a really good job of requiring more balances coming in as we do new loans and the relationships that we have.

Steve Crockett

Yes, Brett, this is Steve. I'll jump in to just say, as you know, there are a lot of moving parts on the deposit side. We did see a good increase on non-interest bearing. There could be some of that, that's some seasonality in a few different markets. But there's definitely some growth there that has occurred there, as we continue to stress, as Cory mentioned, with our treasury folks and in our commercial lenders to push that.

But no real big one item that would account for that. Maybe that would be a short-term deal, but we'll definitely see some puts and takes in that portfolio. The cost, we will continue to manage the overall cost of deposits down. The fact that we were able to grow non-interest bearing definitely helps that. We're just trying to make sure we manage to the right level of liquidity and not overpay for what we've got and what we need.

Cory Newsom

I think one of the things that we've really been focused on is we've wanted to make sure, as the opportunities continue to come our way, that we were going to be prepared to fund them. Our focus has been very much driven on driving the deposit growth of this Company. I think our liquidity numbers have shown and continue to show that we've done a good job managing that.

Curtis Griffith

Brett, this is Curtis. As Cory just said, core deposits has been really job one around here for us. I think you're seeing the effect of that. Treasury is part of it, but we're also just getting some additional deposits from other sources, some folks moving business in from other banks and going forward. You mentioned seasonality. I really don't think that's that much of a factor right now. In fact, in some ways, we'll probably have more seasonality effect as we get toward the end of the fourth quarter and end of the first quarter, get through as many public funds as we have. You're going to see some tax receipts come in. You'll also see farmers selling crops, few other things.

What we are going to be very cognizant of is doing the very best we can on the beta as the market rates move down. I don't know how strong we can be, but we've had some discussions that we want to post a bigger number on the beta going down than we did on the beta coming up. We'll see how well we do.

Brett Rabatin

Okay. That's all really helpful guys. Wanted to also ask about loan growth, and I heard the guidance for flattish in the fourth quarter. You have confidence that, that growth will reemerge maybe thereafter. I know there's uncertainty with some folks waiting to see election results, where taxes end up, all that good stuff. Is there anything that you can kind of point to for 2025 in terms of initiatives with any of the various segments of the loan portfolio that will be a focus? Then I know you probably haven't done your budget yet, but as you think about it, any thoughts on mid-digit, high-single digit, double-digit, how you might think about this coming year?

Cory Newsom

If you look at where we are, we're going to be pretty conservative and looking at kind of flat through the balance of the year. I think that's the way it's going to be. Here's the thing that we're so proud of. If you go back and look at it, I can't give you guidance on where we're going to be budget-wise or anything else. But what I can tell you is our pipeline looks better today with the quality of things that we have in our pipeline that our guys are working right now than it's looked in two years. That's the kind of stuff that you're going to start seeing really take effect. We may get some of that stuff funded prior to it, but you're really going to start seeing it affect our numbers starting in the first quarter. That's probably the thing I'm most excited about. Brent?

Brent Bates

Yes. On top of that, Brett, over the last 12 months, we've seen a contraction in both indirect and in our homebuilder portfolio as our homebuilders have intentionally reduced their inventory to kind of balance to the sales environment right now. We're starting to see signs of that's slowing down and potentially approaching a bottom for both of those two categories.

It's been a big contraction for both of those. Indirect side, that contraction really was driven in part by our pricing model for that portfolio, but also industry trends. Here lately, we think we're starting to see signs of that's slowed down substantially, that contraction. That could turn to be a positive for 2025 for us.

Brett Rabatin

Okay. Great. If I could sneak in one last one just around the margin, it would seem like lower rates would be pretty beneficial to you guys. Any thoughts on the margin from here, either with or without rate cuts?

Curtis Griffith

Steve, you want to lead on that one?

Steve Crockett

Yes. I'll start. We've done well, I think, overall, on where we've been on margin, and I'm glad where we ended up the quarter. We're projected, again, just based off of projections, on a static balance sheet to be able to improve NIM as rates go down. Now, we're not a drastic improvement. It's been fairly neutral, asset sensitive or liability sensitive. But we do project to show improvement.

The one caveat is we are a little bit more liquid today, just given some of the loan paydowns that you saw and the growth in deposits. There could be a little bit of short-term pressure on NIM just from that. But we continue to try to manage that overall liquidity position to where that would not be a meaningful number.

Cory Newsom

One thing that we have intentionally are kind of proud of the challenge that we may face. We know what pipelines look like and we know we've got to be able to fund them. We're sitting here trying to balance between trying to manage through for the next month or couple of months, trying to make sure that we can keep those balances in place to be ready to fund like we want to. When we tell you that our pipeline looks better, it really does look better. Now, you've got to get that stuff to the finish line, and I think we're all cognizant of that. But the quality and the conversations that we're having with our clients are real and they're really good. As we've said on more than one occasion, it's good to be in Texas.

Curtis Griffith

Brett, one thing—Cory kind of alluded to this. While we really don't expect significant loan growth in the fourth quarter, we are continuing to, I'll just call it stockpile, I guess, some core deposits because we have a lot—it's just our philosophy. We'd a lot rather fund this loan, coming loan growth that we do believe is out there with core deposits instead of having to do short-term brokered funds or other things, just try to fund a loan that shows up. What we're doing will probably, as Steve indicated, negatively impact NIM a little bit. But nevertheless, I think you can watch and see that we're putting some money in that we're paying a little bit for and we're growing non-interest bearing as well. But we're putting it out in overnight places, readily available liquidity places, and we'll continue to earn more, a lot more, but we'll earn more than we're paying. We're still going to be enhance income a little bit by doing this.

Brett Rabatin

Okay, great. Appreciate all the color.

Curtis Griffith

Thanks, Brett.

Cory Newsom

Thanks, Brett.

Operator

The next question is from Woody Lay from KBW. Please go ahead.

Woody Lay

Hey, good afternoon.

Curtis Griffith

Hi, Woody.

Cory Newsom

Hi, Woody.

Woody Lay

Wanted to dive a little bit deeper into sort of deposit pricing trends. We got the 50 basis point cut towards the end of the quarter. Could you just walk us through the trends you saw pre and post cut? Are the deposit betas coming in line with what you were expecting?

Steve Crockett

Yes. I would say so. Again, we've got a few deposits, primarily in our public fund arena, that have some rate reset days. They may just be monthly. Maybe a full amount may not happen immediately, but it catches up fairly quickly. Overall, what we've seen in October through today, I think we're trending the direction that I would have anticipated.

Cory Newsom

Woody, I think it's important to keep in mind, though, we didn't race it to the top like a lot of them did. As we start coming back down, the more cuts we get the better it will be for us. We knew the first little cut would be a little bit—it would be beneficial, but it won't be as beneficial as the next cuts I think will be. I think it's helped us. That's one way we tried to maintain our NIM up to this point.

Curtis Griffith

We are seeing some softening on CD rates across most of our markets. There's still some out there that are badly in need of funds apparently, and they're still paying up. But if you look across the general universe of the peer competition, I think everybody's backed off some and realizing people see that 50 basis point cut and recognize it is going to affect what they get for their deposits. The competitive situation is just not quite as harsh as it was.

Woody Lay

That's helpful. Then real quick on the payoffs you saw in the quarter, there was a couple of elevated payoffs. Did that impact NII at all? As did you recognize any larger prepayment fees that were a boost to the NIM?

Brent Bates

No, we didn't have any larger prepayment fees on those.

Cory Newsom

I don't think at all.

Woody Lay

Got it. All right. Perfect. Then last, I just wanted to hit on mortgage. I think if I adjust for the MSR impact over the past two quarters, it looks like mortgage fees were down about 800,000 on the quarter. Am I thinking about that right? What's the mortgage outlook from here? I know we're about the hit a couple of sort of weaker seasonal quarters, but do you think we could start to see an inflection from here?

Cory Newsom

You're exactly right. We're not headed into our stride for mortgage. You're looking in the fourth quarter. With all the holidays and stuff are coming, it will be slower. Now, when we set out our budget for the year, we budgeted this to be exactly what's happening. We knew we would do better off at the first of the year. We've tried to stay so careful of managing the expense factor and still trying to keep our infrastructure in place without let it be too much of a burden for us. We still believe that having the ability to do that is going to be good, but I really anticipate we're going to see more of that activity coming probably at the first of the year.

That being said, we've got some of our lenders that are closing more loans than they closed last year on the mortgage side. But it's just, we're still waiting for rates just to make a little bit more of a move for people to actually—for it to see a big bump.

Curtis Griffith

I think, and everybody sees this, that when we briefly had rates in the sixes, then we're getting a lot more excitement and interest out there, and people were talking about doing something. Of course, as we've seen, the long end the curve move up, 10-year move up, now we're back in sevens, and it threw cold water on it quite a lot. But I do think that the team we've got are still, they're doing some business. It's just tough, but they are still doing some business.

Cory Newsom

There's some opportunities there for us as we do some of the construction stuff that leads into some of the mortgages for long-term. That stuff works well just as much, but the cheapest rates we've seen most recently on mortgages were the day before the cut. It just, it is what it is for a little while. But I do like the fact that we've been able to manage our expenses through this so that we're still coming back up. We're coming out on track right now where we thought we would be with mortgage.

Woody Lay

Yes, that's all great info. All right. Thanks for taking my questions.

Curtis Griffith

Thanks, Woody.

Cory Newsom

Thanks, Woody.

Operator

As a reminder, if you would like to ask a question, it is star, one.

The next question is from Joe Yanchunis from Raymond James. Please go ahead.

Joseph Yanchunis

Good afternoon, gentlemen.

Curtis Griffith

Hi, Joe.

Cory Newsom

Hi, Joe.

Joseph Yanchunis

I wanted to circle back to loans real quick. I think you talked about a robust pipeline, which you believe will start to come through in the first quarter of next year. With that wave of loans coming, do you expect loan yields can continue to march higher from here?

Brent Bates

I do. We're getting good pricing on our loans. We have segments of our portfolio that continually reprice, and we benefit from that. But we've got a lot of good opportunities, a good mix between C&I, CRE and construction. Kind of depends a little bit on what the Fed does with rates, but…

Cory Newsom

I think it's important to keep in mind, though, I think Brent's exactly right. We think we'll see some improvement in the yield on our loans, but a lot of it's going to come from the repricing of some of the cheaper stuff we have in our books today and some of them in '25, but we're going to see even more of that in '26.

Steve Crockett

Yes, for sure. It'll depend on how far they cut. We benefited during this year. One of the benefits in the indirect portfolio, a lot of that stuff that got put on, was back in 2021 when rates were at their all time lows, and as that stuff is amortized off and paid down, that's improved the overall yield on the loan side. Again, got those competing factors here. New loans we're going to put on the books on the commercial side, those will be beneficial to us when we do have some of those loans spread out through '25, '26 and into '27, that reprice up. But the variable stuff we've got right now, as that reprices down, I'm again hopeful we can keep that loan yield somewhere in the neighborhood where we're at today?

Cory Newsom

Joe, I'll give you a little peek behind the curtain. We've had lots of conversations with our lenders and trying to figure out what market pressures exist. Make sure that we're reacting to them in a very good manner, all the while being very careful with our credit quality. But the one thing we're not really struggling on is rate. It's not because we're—that's just not been—we think we're pretty competitive with it and we like the stuff we're putting on. I do think that we'll see some improvement.

Joseph Yanchunis

I appreciate that. That was very thorough answer. Then you just talked about your CD rates or CD rates coming down your markets. Can you discuss how your CD rates have trended subsequent to the rate cut? Then the expected maturity schedule? Just trying to get a sense on the near-term opportunity to reprice those down?

Curtis Griffith

I'll let Steve jump in on this to give you a little more relevant data on our CDs. But keep in mind the percentage of our deposits and CDs is way below peer anyway. Yes, we are cutting rates on some. We just don't have a lot of demand for longer term CDs. Most of our people have been putting in with us do have CDs. Have been six-month, 12-month opportunities out there. Steve, relatively speaking, what do you see out there? We will be repricing some down that came on in the past 12 months, we are.

Steve Crockett

Yes. The majority of our CDs are all, they're definitely one year or less, and most of them are probably going to be in the six-month or less period. Those are beginning to reprice and even some of the ones we had done earlier in the year have begun to reprice down. We did drop the CD rates just right after the Fed cut in that six-month to a year timeframe, anywhere from 25 to 50 basis points.

Cory Newsom

But remember, we weren't cutting high rate CDs because we weren't already above market by any stretch.

Joseph Yanchunis

Right. All right, I appreciate that. Then last one for me on the bond book, it looks like you added a little bit in the quarter. What were you adding and where do you expect the bond book to trend from here?

Steve Crockett

On the bond book, we actually did not add anything. The increase should have just been the increase in the fair value of the securities. We really have not added any securities in a little while. All of our salespeople would love for us to be doing that, but I don't think there was anything during the quarter.

Curtis Griffith

I realize we've got other people out there that are taking the opportunity to reposition big chunks of their bond book. We've chosen not to do that. We've had various analysis run that show us the pros and cons on it, too. For us, right now, as we've said before, we have a fairly significant piece of our municipals that are hedged. With that in place, nobody knows how fast this thing will come down.

But I do believe we are on a downward trajectory now. We've got an election coming, and who knows? I'm not even going to forecast what would happen depending on the way the election comes out. But we think we're in a fairly safe position. Right now, we don't think it's a good time to use up capital just to go restructure the whole bond book. We'll sit here with what we got. We're not going to really be buyers right now much, unless it's literally super, super short things just for some of that excess liquidity we've been talking about.

Joseph Yanchunis

I appreciate it. I actually had; I do have one more question here. As we think about non-interest expenses, are there any large items that we should be thinking about as we move into 2025, or do you think it'll be pretty much a normalized year?

Steve Crockett

I would hope it's a normalized year. We'll definitely be seeing pressure on the personnel cost side I think just with what's gone on over the last year plus and inflation, I tease always that—there's always more things out there available to upgrade. We'll try to keep that under control. Outside of that, I'm not aware of any significant item.

Cory Newsom

Yes. I'm not either. I think it's going to be pretty much—it'll be pretty flat going forward. That doesn't mean that we won't still be doing stuff, but we'll have other stuff that's rolling off. I think our team does a pretty good job of trying to manage that stuff out.

Curtis Griffith

We've had that plan for quite a while, but on the technology side and operationally generally, that we do things in increments, not in huge chunks. This past year was actually a relatively large chunk for us because of some cloud migration we were doing with non-core products. But the forecast out there that I'm looking at is if we have a soft landing and a normalization in the economy generally, that we do think that we're picking up some good loan opportunities. The game plan here is to get a little more loan growth in '25 than what we got in '24, but not a whole lot more. We need to do it manageable and use up some core deposits and put them to work and do that with quality loans and make a little spread and put a little money in. That's what we're looking forward to.

Joseph Yanchunis

Thank you for taking my questions.

Curtis Griffith

Thanks, Joe.

Steve Crockett

Thanks, Joe.

Operator

This concludes the question-and-answer session. I'd like to turn the floor back to Curtis Griffith for any closing comments.

Curtis Griffith

Thanks, Operator, and thanks to everybody that joined us on the call this afternoon.

Just to reiterate, we think our third quarter results demonstrate the Bank's performing very well. We do continue to focus on our customers, build those long term relationships, and that can be seen in the strong deposit share where we're holding a number one, number two position in many of our rural markets across Texas and New Mexico.

Additionally, we're going to drive strong deposit growth overall, providing liquidity for the loan growth coming in the year ahead we think. Very importantly we are seeing a level of optimism from our customers that we haven't seen in some time, translating into, as we've mentioned several times, the strongest new business pipeline that we've had in more than two years.

The headwinds we've been experiencing from the managed decline in our indirect auto portfolio and our builder customers that have been reducing inventories, we think those are both set to stabilize. Taken together, I'm pretty optimistic about the future. Especially, I do want to thank our employees for their dedication to the Bank and to our customers. Our success would not be possible without them. Thanks again for your time today.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you again for your participation.