South Plains Financial, Inc.

Third Quarter 2023
Earnings Call Transcript

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CORPORATE PARTICIPANTS

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Cory Newsom, *President*

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Graham Dick, *Piper Sandler & Co.*

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the South Plains Financial Third Quarter 2023 Earnings Conference Call.

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 afternoon, everyone. We appreciate your participation in our third quarter 2023 earnings conference call.

With me here today are Curtis Griffith, our Chairman and Chief Executive Officer; Cory Newsom our President; and Brent Bates, our Chief Credit Officer. A slide deck presentation to complement today's discussion is 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 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 that was issued earlier today and on Slide 2 of the slide deck 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 at the end of our earnings release and beginning on Slide 23 of the slide deck presentation.

Curtis, let me hand it over to you.

Curtis Griffith

Thank you, Steve, and good afternoon.

On today's call, I will briefly review the highlights of our third quarter 2023 results as well as provide an update on our capital allocation priorities. Cory will discuss our loan portfolio in more detail and the opportunities that we have to reprice our portfolio to drive interest income growth over the next year. Steve will then conclude with a more detailed review of our financial results.

To start, there are five key points that I hope you will take away from the call. First, our core deposits have remained relatively stable through the year, with only a modest decline in the third quarter, further demonstrating the strength of our community-based deposit franchise.

Second, we experienced healthy net interest income growth as our loan growth through the year, combined with the improving yield of our loan portfolio, drove strong interest income growth, more than offsetting the notable rise in our cost of funds.

Third, while loan growth moderated through the third quarter, we believe that we have opportunities to further drive interest income growth as approximately 30% of our loan portfolio will mature or can reprice over the next year.

Fourth, the credit profile of our loan portfolio continued to improve through the third quarter, as our non-performing assets are at their lowest level since our IPO in 2019. Lastly, we repurchased 355,000 shares for $9.3 million in the third quarter, as we continue to believe that our shares are trading below intrinsic value.

Turning to our results in more detail on Slide 4 of our earnings presentation, we delivered net income of $13.5 million, or $0.78 of diluted earnings per share in the third quarter as compared to $29.7 million, or $1.71 of diluted earnings per share in the second quarter of 2023. This compares to net income of $15.5 million, or $0.86 per diluted common share in the year ago third quarter.

As a reminder, we completed the sale of Windmark, City Bank's wholly owned insurance subsidiary, in the previous quarter. The after-tax sales proceeds, less transaction expenses, the incentive compensation triggered by the transaction, and the realized loss on the sale of investment securities during the second quarter, resulted in $1.16 per share of onetime net income in the second quarter. Excluding these items, the comparable second quarter diluted earnings was $0.55 per share. Turning to our loan portfolio, we grew loans 1.9% annualized in the third quarter. This was expected given the strong loan growth that we delivered in the second quarter, which reduced our loan pipeline and which Cory will discuss in more detail in a moment.

We recorded a negative provision for credit losses of $700,000 in the third quarter as compared to a provision of $3.7 million in the second quarter of 2023. The reserve release was primarily due to a reduction of $1.3 million in specific reserves, partially offset by loan growth and net charge-off activity. As we discussed on our second quarter call, we placed a classified relationship totaling $13.3 million on non-accrual in May. The credit was for a business that was in borrower-directed liquidation and from which we had expected to see some repayments starting in the third quarter of 2023. However, this credit was fully repaid in the third quarter, and we released the related specific provision that we had taken in the prior quarter.

As Steve will touch on in more detail, the credit quality of our loan portfolio is strong as our classified loans are at the lowest level since the start of the pandemic. Our $700,000 reserve release after tax represented approximately $0.03 per share of earnings in the quarter. As a result, we believe the run rate earnings of the bank were $0.75 per share in the third quarter. We grew deposits $46.1 million or 1.3% to $3.62 billion at September 30, 2023, as compared to the end of the second quarter of 2023. Our deposit growth was primarily due to a $71 million increase in brokered deposits, partially offset by a $14 million decrease in public fund deposits, while our community-based deposit franchise remained stable through the third quarter.

It is important to point out that we started work to expand our brokered deposit funding early in 2023 as a strategy to provide excess liquidity for the loan growth that we expected to achieve through the year. Brokered deposits have historically been a small portion of our deposit base and building this funding was part of our liquidity strategy predating the bank failures in March. We began to add brokered deposits at the end of the second quarter given the strong loan growth that we had achieved. Today, brokered deposits represent less than 6% of our deposit base and we expect that percentage to remain stable to moderately higher in the fourth quarter. Ultimately, we're paying a small premium to hold excess liquidity, which we believe is the right decision in the current environment.

The stability of our deposit franchise and strong liquidity position can further be seen on Slide 5, which also highlights the competitive position that South Plains holds. 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 and only an estimated 16% of our total deposits are either uninsured or uncollateralized. The strength of our community deposit base can also be seen in the market share gains we have achieved largely due to competitor dislocation from recent mergers.

In Lubbock, we have been a strong number two in deposit share for many years. We are now the market share leader for the first time in eight years, with an 18% deposit share, with the second-place bank coming in at 15.1%. We are also seeing competitor dislocation in Midland and Odessa, where we're seeing deposit share gains as well, and which contributed to the strong deposit growth that we achieved in the Permian Basin in the third quarter. Overall, we have the number one or two deposit market share in many of our rural markets, which is a testament to our employees and their dedication to our customers.

Turning to our liquidity, we ended the third quarter in a strong position with $1.89 billion of untapped borrowing capacity. We have $1.09 billion of availability from the Federal Home Loan Bank of Dallas, $612 million of availability from the Federal Reserve's discount window, and $179 million of capacity from the Federal Reserve's bank term funding program. Given our strong capital and liquidity position, our Board of Directors authorized a $15 million stock repurchase program in May. We bought back approximately 113,000 shares during the second quarter for $2.6 million, and 355,000 shares during the third quarter for $9.3 million. At September 30, we had $3.1 million remaining on our stock repurchase program.

Looking forward, we believe that more challenging economic environments can lead to opportunities for those with strong balance sheets, ample liquidity, and sound loan portfolios. While we expect M&A to remain subdued given the current interest rate environment, conversations are beginning to pick up in our markets. Over time, we will look to further expand the bank through acquisitions that make financial sense and fit our culture. However, the most attractive acquisition that we have had is purchasing our own shares, which we will continue to do as long as they trade below our view of intrinsic value. When we exhaust our current share repurchase program, our Board will review our capital allocation priorities and consider the merits of another stock repurchase program.

As part of our capital allocation, returning a steady stream of income to our Shareholders through our quarterly dividend has also been a focus since going public over four years ago. Our Board of Directors again authorized a $0.13 per share quarterly dividend as announced last week. This will be our 18th consecutive quarterly dividend and is to be paid on November 13, 2023, for Shareholders of record on October 30, 2023.

To conclude, we continue to deliver results for our Shareholders despite economic headwinds and a challenging environment for our industry. We remain focused on conservatively growing the bank, managing risk, and strategically using our capital to buy back shares. While we are having conversations with other parties, the economic environment still poses challenges for M&A. In the meantime, we will manage our capital as we look to take advantage of opportunities in the market and continue to conservatively grow the bank.

Now, let me turn the call over to Cory.

Cory Newsom

Thank you, Curtis, and good afternoon, everyone.

Starting on Slide 6, loans held for investment increased during the third quarter by $14.5 million or 1.9% annualized, compared to the second quarter of 2023. Loan demand remained primarily in commercial real estate, residential mortgage, seasonal agricultural, and energy loans. As expected, we experienced a moderation following the second quarter's strong loan growth, which reduced our loan pipeline, and which was slow to rebuild through the third quarter.

We also experienced the payoffs of $16.5 million in non-performing loans and an early payoff of a $14.9 million relationship, which taken together proved a headwind to loan growth in the quarter. Excluding these payoffs, we would have delivered approximately 6% annualized loan growth in the third quarter.

Our loan yield was 6.10% in the third quarter as compared to 5.94% in the second quarter of 2023. We continue to proactively price new loans to account for a higher market interest rate environment, which is contributing to rising funding costs. We remain focused on loan pricing while managing our deposit growth and funding costs to mitigate margin pressure as we look to the fourth quarter and into the year ahead.

Looking at our rural markets in more detail, we continue to benefit from customer dislocation created by competitor mergers, which is providing opportunities to bring great customer relationships and talented lenders to City Bank. During the quarter, we recruited two lenders in our rural markets who are bringing both loan and deposit relationships to the bank. We will continue to selectively add experienced lenders who fit our culture as we continue to grow the bank.

Skipping to Slide 8, we grew loans by $40 million or 16.8% annualized to $995 million in our major metropolitan markets of Dallas, Houston, and El Paso as compared to the second quarter of 2023. The commercial lenders that we have added in these markets continue to grow their loan portfolios by bringing new relationships to the bank. Our metro markets are an important source of loan growth, more than offset the paydowns that we experienced in our community markets during the third quarter.

Looking ahead to the fourth quarter, we're seeing our loan pipeline rebuild and believe low single-digit annualized loan growth is achievable. Importantly, we are seeing healthy demand, but in this environment, we're being much more selective in who we do business with and what loans we decide to underwrite. We're turning down solid loans that include healthy levels of equity because they are deals, not relationships. We want to do business with customers that will be long-term relationships for the bank. We strongly believe, in light of the current environment, that this is the right decision to be cautious and remain focused on funding high-quality loans with good risk and return profiles.

Turning to Slide 9, we believe we are in an advantageous position as almost $875 million of our loan portfolio will mature or can reprice over the next 12 months, which is approximately 30% of our loan portfolio. Additionally, our fixed-rate indirect auto portfolio continues to increase its yield with monthly principal amortization being redeployed into higher-rate loans. There were approximately $35 million in these repayments during the third quarter. While we expect only moderate loan growth in 2024, we believe that we have the opportunity to pick up considerable interest income even if our balance sheet remains relatively flat.

Skipping ahead to Slide 11, we have approximately $1.1 billion of commercial real estate exposure in our loan portfolio at quarter end, which represented 36.9% of our total loan portfolio. Our office exposure represented 17% of our CRE portfolio and 6% of our total loan portfolio at the end of the third quarter. Of note, our office exposure is 30% owner-occupied and 11% medical offices. Our office portfolio is performing well, and our largest credits have strong guarantors. We continue to stress test the individual credits in our portfolio for challenges.

Given the focus on commercial real estate by investment community, we have decided to provide more detail on our CRE portfolio as outlined on Slide 12, where we show our loan balances by segment, the percent which are owner-occupied as well as the geographical location, which is important. As you can see, a significant majority of our CRE portfolio is outside of central business districts and more insulated from the current challenges that those areas are encountering, given that many employees have been slow to return to their offices. We will continue to remain vigilant, and stress test the individual credits in our portfolio for challenges. That said, the credit quality of our loan portfolio continued to improve through the third quarter, which Steve will discuss in more detail in a moment.

Turning to Slide 13, we generated $12.3 million of non-interest income in the third quarter as compared to $47.1 million in the second quarter which included the $33.5 million gain from the sale of Windmark. Third quarter non-interest income declined by $1.3 million from the second quarter when excluding the gain from Windmark. This decline was largely due to a $900,000 decline in bank card services and interchange fees. Of note, the second quarter included larger incentives and rebates in bank card services, which has normalized in the third quarter.

Additionally, mortgage banking revenues also declined given the rise in interest rates combined with typical seasonality. We continue to be focused on expense management in our mortgage business to offset declining revenue. For the third quarter, non-interest income was 26% of the bank's revenues as compared to 28% in the second quarter of 2023, when excluding the one-time gain from Windmark.

To conclude, we delivered strong results through the third quarter and believe we remain well positioned for the current environment. We continue to take market share given the customer dislocation that is occurring in our markets and have added outstanding lenders to our team this quarter. We will continue to focus on driving organic deposit growth while mitigating margin pressure.

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

Steve Crockett

Thanks, Cory.

Starting on Slide 15, net interest income was $35.7 million for the third quarter as compared to $34.6 million for the second quarter of 2023. The increase was primarily the result of a $5.7 million increase in interest income, given our strong loan production in the first half of this year, combined with the rise in new loan rates, which lifted the yield on our loan portfolio by 16 basis points in the third quarter. Further, earnings on the additional liquidity added in the quarter helped drive the increase. The rise in interest income more than offset the $4.6 million increase in interest expense due to the rise in short-term interest rates on interest-bearing liabilities.

Our net interest margin, calculated on a tax equivalent basis, was 3.52% in the third quarter as compared to 3.65% in the second quarter of 2023. Our NIM was impacted by a 38 basis point increase in our cost of deposits in the third quarter as compared to the second quarter of 2023. This was partially offset by our organic loan growth, combined with the corresponding increase in our loan yields of 16 basis points as compared to the second quarter of 2023.

As outlined on Slide 16, our average cost of deposits was 207 basis points in the third quarter, an increase of 38 basis points from the second quarter of 2023. Given the rising interest rate environment through the year, we've had to be proactive in maintaining deposit relationships, which has led to the rise in our funding cost. Additionally, and as Curtis touched on, we strategically expanded our broker deposit funding to augment our liquidity as we funded loan growth during the year. In the third quarter, the increase in those deposits contributed approximately 18 basis points to the increase in our average cost of funds.

Overall, our core deposit franchise has remained relatively steady through the year, with only a small decline in the third quarter, and we've also not had to heavily rely on time deposits. Our deposit mix of non-interest bearing deposits to total deposits modestly declined to 28.9% as compared to 30.8% in the second quarter of 2023.

Turning to Slide 17, our ratio of allowance for credit losses to total loans was 1.41% at September 30, 2023, as compared to 1.45% at June 30, 2023. As Curtis touched on, we recorded a negative provision for credit losses of $700,000 in the third quarter. The negative provision was largely due to a reduction of $1.3 million in specific reserves, partially offset by loan growth and net charge-off activity for the third quarter. The reduction in specific reserves was a result of the full repayment of a $13.3 million nonaccrual relationship in the quarter. Due to this full payoff and other repayments, our non-performing assets to total assets ratio decreased to 12 basis points in the third quarter, from 51 basis points in the second quarter of 2023.

Classified loans declined approximately $16.7 million during the third quarter to $50.7 million from $67.4 million at June 30, 2023.

Skipping ahead to Slide 19, our non-interest expense was $31.5 million in the third quarter, as compared to $40.5 million in the second quarter of 2023. The decrease was primarily due to the $4.5 million in personnel and transaction expenses from the sale of Windmark, plus related incentive compensation, as well as the $3.4 million loss on the sale of securities, which impacted us in the second quarter of 2023 and did not recur in the third quarter. Importantly, our third quarter non-interest expense came in below the run rate that we have delivered over the last three quarters, as we have taken more cost out of our mortgage operations while continuing to implement further efficiencies across the bank.

Looking to the fourth quarter and the year ahead, we expect non-interest expense to be flat or slightly increased based on continued rising costs. That said, we will keep looking for offsets to manage non-interest expense as we continue to selectively add talent to our team.

Moving ahead to Slide 21, we remain well capitalized with tangible common equity to tangible assets of 8.4% at the end of the third quarter, a decrease from 8.96% at the end of the second quarter of 2023. The decrease was driven by the $9.3 million in share repurchases completed in the quarter and a $22.8 million decrease in accumulated other comprehensive income, which was partially offset by $11.3 million of net income after dividends paid.

AOCI was negatively impacted again this quarter, as longer-term bond rates rose during the quarter, which resulted in lower fair values of our investment securities. Tangible book value per share declined to $21.07 as of September 30, compared to $21.82 as of June 30, 2023, largely due to the impact of AOCI.

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 once again this quarter, as we delivered net interest income growth despite continued pressure on our funding costs as we benefit from the strong loan growth delivered over the last six months, combined with a healthy rise in our loan portfolios yield. We believe we have ample opportunities to reprice both our commercial and indirect auto portfolios over the next year, which will continue to drive interest income growth, even if our balance sheet only experiences moderate growth, given the slowing economy.

Additionally, the credit metrics of our loan portfolio remain strong, as our non-performing assets are at their lowest level since before our IPO in 2019, which I am pleased to see, given the uncertain macroeconomic outlook. We will also continue to recruit outstanding talent, like the lenders we brought in this quarter, to position South Plains for long term growth and value creation. Taken together, we believe we're in a strong position heading into the fourth quarter and the year ahead.

Thank you again for your time today.

Operator

Our first question comes from Graham Dick with Piper Sandler. Please state your question.

Graham Dick

I just wanted to start on the margin. It sounds like you guys are pretty encouraged by what you're going to see on the asset repricing front over the next couple of quarters. I just wanted to get your sense of how that might relate to the funding side from here and if you're pretty confident that the asset repricing can offset any further increase in deposit costs from here and lead to not only better NII, but a NIM bottom being put in this past quarter.

Steve Crockett

Yes, we feel good with what's coming on the income side, the interest expense side, we still believe that that number will continue to increase. The hope is that it will offset, but we still see pressures every day on the deposit side. I'd like to say we were at the bottom of the NIM compression, but I think we will continue to see some challenges there. I don't think we would see a decline like what we saw this quarter with the brokered side, but we'll continue to see pressure there.

Cory Newsom

Yes, I agree with Steve. What we're really excited about is the repricing that we know we have coming in the next 12 months. But I think we're all kidding ourselves if we don't think we'll see some pressure on deposit costs keep going.

Curtis Griffith

Obviously, a lot of it depends on what the Fed decides to do going forward, but I do think that you mentioned finding a trough in the NIM. I think like many of our peers out there that we're not quite there yet likely, but I don't think we're very far away from it and I do think probably during '24, we'll begin to find a bottom. I wish I knew exactly what quarter that'd be in, but I do think it's probable that somewhere in '24, we're going to see that because by then deposit costs will pretty well have repriced and if we don't see additional rate increases coming from the Fed, that will slow the opportunities for our depositors and other depositors to keep depositing their money somewhere else.

That's been the challenge obviously and I think it's really helped us to have strong relationships that we have with depositors so that we have not had to run at the top of the market on our product offerings. As Cory said, we're kidding ourselves if we don't think we're going to still have some additional deposit pressure coming.

Cory Newsom

I think you can also see the fact that we've tried to hold our liquidity in check as much as we can without just repricing the bank as a whole. We've been very careful about it. We are going to face some of those pressures. But do I think it's insurmountable? No, I don't. I think we've done a pretty good job of it. I think we'll continue doing a pretty good job of it.

Graham Dick

Then I guess just on the repricing side, you said 30% of loans repriced over the next 12 months. Do you have the average rate of those loans today and then where you think they would reprice to over that time period?

Steve Crockett

No, there's not a specific rate we've got on those. They're really across the board, I would say. Some of that is newer stuff. Some is at the higher rates. But, there's definitely some that have been on the books for a little while. It's just going to be a blend. There's no specific average yield we've got on that at this point.

Cory Newsom

I don't think we've got that information in front of us right now. Do I think it'll be a nice improvement? Yes.

Graham Dick

Lastly on the funding side, what's your outlook on non-interest bearing from here? Last quarter, they were a little bit more stable. Then this quarter we saw a little bit more acceleration on that front. How are you guys viewing non-interest bearing balances and how are they acting this quarter? How do you think they'll act throughout 2024 and how does that play into your old strategy from here on the growth side?

Cory Newsom

We talk about this every time. Every loan discussion we have comes with the non-interest bearing balances that actually come with it. We're making much more concerted effort as it revolves around that. Some of it's a little bit of an ebb and flow that happens with those balances. Some of it is people are using the money and so that's shrinking. As a whole, I think we do a pretty good job of trying to keep that percentage of non-interest bearing in check pretty good.

We can't help but have a little bit of pressure from it. The value of those dollars are now worth more than they were in the past. But we're doing a better job of even on our loans of making requirements to keep those balances in check.

Curtis Griffith

We are definitely working on incentive packages for our officers that will really put a lot of emphasis on bringing those non-interest bearing balances in. As Cory said, you're going to have a continuing runoff, a little bit of that as people do recognize the value of money, which up until fairly recently, obviously wasn't very much. Now it does behoove them to get something earned on that, but there's still a lot of business balances out there that are non-interest bearing, high-volume accounts, high activity accounts. There's a lot of things that we can do with them and make a little bit of money off of the treasury management side as well.

We are really pushing and not only preaching to but monetarily incentivizing our team to go out and find more of those. Certainly, our hope that we'll probably see a little more decline. I don't think we're going to see it drop down to similar levels again, but I know some of our peers and some larger banks have mentioned maybe on their calls. We're certainly trying to hold on to it. That's the best money we can have in the bank right now.

Operator

Our next question comes from Brett Rabatin with Hovde Group.

Brett Rabatin

Wanted to start back just on clarifying that 30% that matures in the next year of the loan portfolio. If I look at those fixed rate loans that are maturing, Slide 9, what piece of that pie is repricing relative to the fixed versus variable?

Steve Crockett

It should be the fixed that matures 12 months or less and then also the variable immediately repriceable and those that can reprice within 12 months or less. There should be the 8%, 16% and the 6%.

Curtis Griffith

It's not just maturity.

Steve Crockett

Yes, it's maturities and repricing.

Curtis Griffith

But they reprice on a schedule and many of them are actually on one-year schedules and some others that are coming up. As a lot of banks did, we certainly have a fair amount of stuff that was put on the books with maybe a 10-year maturity, but a five-year fix on the rate and we're starting to hit some of those dates out there on those five years. We'll certainly take that opportunity to reprice and besides what we're saying there, we are going to have scrub our loan portfolio constantly and as opportunities arise due to whatever situation that might trigger it in a loan agreement, we're not going to be bashful about seeking higher rates on those loans as well.

That might be coming in a little bit in addition to even the 30%. It's not a big number, I would expect, but it's certainly meaningful.

Brett Rabatin

Then wanted to make sure I understood the verbiage around capital uses from here. It sounds like you guys are getting a little more interested in possible M&A scenarios if it made sense. But it also sounds like you're still committed to maybe continuing the share repurchase. Just wanted to make sure I understood how you were thinking about both of those two things as you allocate capital here in the coming quarters.

Curtis Griffith

What we're trying to say carefully out there is that while we're not getting terribly excited about the M&A, we are beginning to get some inquiries about it. I think it's still a challenging market to do anything in, but we'll stay aware of opportunities in our markets and see what comes along. I think our Board is still looking at having probably some sort of repurchase program in place. Don't know what it's going to look like. We'll be talking about that real soon and revamping a little bit.

As you can tell, we've been really pretty aggressive in this past quarter, perhaps even a little more than we thought we might, given the way pricing and everything worked out. I still think it's a good idea to have a repurchase program in place out there. I don't know what the market's going to do. Nobody does. But we've seen some fairly dramatic swings just in the last few days. Our Board's position has been pretty clear that we've kind of got some metrics in there on where we think our stock's really a good buy and we get down to those levels, then it's highly likely we'd be looking at buying some more.

I think you might see a little adjustment in that buyback program from what we've been doing, but will we still have one in place? I think it's probable that we will.

Brett Rabatin

That's helpful. More dialogue on M&A, but not necessarily because you're getting more interested per se.

Curtis Griffith

I think that's fair. We obviously need to stay aware of what's happening and as you well know, we've certainly seen multiple acquisitions happen in some of our home markets out here and some of those haven't gone particularly well. I would say we certainly don't want to replicate that situation, but the right deal may walk through the door, and we'd really want to do it. But we're going to be very cautious about it and certainly have some metrics that we would feel like we can defend very clearly to the market on what we decide to do.

Cory Newsom

I think the other thing is, when it gets down to the M&A side of it, what's really interesting is the fact that our phone's ringing more so than it has in the past.

Brett Rabatin

If I could sneak in one last one. I'm just curious, your indirect auto portfolio is almost all prime and super prime, but I'm curious if you've seen anything on the consumer side that maybe would indicate that the consumer's starting to show some signs of weakness or slowing down spending. Anything that you're seeing that would point to a slowing consumer?

Brent Bates

We're really not, not at least at this stage. Our delinquencies are in check, still below pre-pandemic, and same with the repo, still well below pre-pandemic level. Not really seeing any chinks there at this time. We've got, as you pointed out, a heavy weight toward higher credit score consumers. That may be a part of that.

Cory Newsom

I think one thing to keep in mind, if you look at our indirect portfolio, it kind of comes with more necessities as opposed to toys. We've been very careful in making sure that we've not done much in the way of financing the things that people want to walk away from.

Operator

Our next question comes from Brady Gailey with KBW.

Brady Gailey

I know we had the partial bond restructuring last quarter. I think you put those proceeds to use in loans. That's a big, big pickup in yield. Are you contemplating doing any additional bond restructuring where you sell bonds at a loss and then transition it into a higher earning asset over time?

Steve Crockett

Yes, we look at it. There's no specific strategy that we're going to say we're definitely going to do one, but definitely want to look at it and see if it makes sense. Obviously, with all the volatility in the bond market in the last several weeks and month, it's been a little bit more challenging than maybe it was at the beginning of the third quarter. But I think it's always good for us to at least see what it looks like and try to evaluate any of the merits of doing it.

Curtis Griffith

I would say I'm very pleased with our timing for what we did, given the additional change in the longer end of the curve. Like Steve said, we watch it all the time. Never say never, but right now it's a little hard to figure out what really justifies taking that additional income loss out there to try to reposition it, but there may be a point in there where it really starts to make some sense. We watch it all the time.

Cory Newsom

I think part of that would kind of come with increased loan demand. I think as long as loan demand continues to slow down a little bit, it's kind of hard to justify that right now.

Curtis Griffith

It just is nice to have the one-time gains out there from the sale of Windmark and I noticed that another bank significantly larger than us sold off an insurance business. That's apparently what they chose to do with the big piece of theirs. It may be a pretty good use of some one-time earnings, but right now we're looking at it. I think as Cory indicated, for us, probably more than just trying to reposition the bond portfolio, it'd be more about if we do ramp up some loan demand more than we're expecting, that would be a good source of funding.

Brady Gailey

Then on the loan growth guidance of low-single digits, I think you said moderate loan growth next year in 2024. How are you thinking about the deposit side? Do you think you can grow deposits at a similar pace? Or should we expect a change in the loan-deposit ratio going forward?

Cory Newsom

I don't see how you can grow the loan, the deposits at the same pace as loans. But I think Curtis alluded to this a while ago and one of the things that we've worked on is we're going to be very focused on how we incent our team in trying to build deposits as it relates to loans. We want to stay much more balanced in that process. I think there's some opportunities there. The thing that I'm really proud of is that we've kept the relationship side of this at the front and center and it's always been who we are, what we believe in. We're focused on deposits. There's no question that we're focused on deposits, but to sit here and tell you that we can keep it at the same level, I don't think anybody can tell you that. Not right now.

Curtis Griffith

I'll argue the other side a little bit. Yes, we can. It's just we're not going to like what it does to NIM, and you won't either. We can pay up anytime we need to for deposits and pull more in, but so far, our strategy has worked. We are competitive, but we don't have to be at the top of the market to do this and as long as we can handle deposits that way, I think it benefits our Shareholders to do it that way.

Brady Gailey

Then finally, for me, it's interesting to hear about, kind of a higher level of inbound calls related to bank M&A. I know it's probably not near term, but as you all more seriously look at opportunities, can you just remind us what the ideal target is, from an asset size? Do you want it to be in market? Do you want low loan or deposit ratio? What are the things that you're looking for in an ideal acquisition target?

Cory Newsom

They don't make an ideal one.

Curtis Griffith

Yes, exactly. We haven't found that one yet. We'd already be announcing. It's likely to be a Texas franchise. I don't see our appetite for really going out of State, but as far as what it is, where it is, there's a lot of options out there and we've heard about some. We've been directly called by some that are quite different in the ones that we've had some discussion with. I'm not going to try to narrow it down to one that would be just perfect. But historically, I would still say this, that if we find a West Texas based franchise with a relatively low loan deposit ratio and a really strong core deposits that are still in the bank at fairly inexpensive rates, that's pretty attractive. But finding those right now in a situation where the seller would be willing to recognize how much the AOCI hit is likely to be, that's a unicorn to go find right now, I'll just tell you.

Cory Newsom

For us, we're trying to find something that doesn't exasperate liquidity problems that you're not taking on some problems that you weren't prepared to deal with. You really got to understand the mentality of the seller as much as you do have the desire of the buyer to be sitting here looking at what you want to do and trying to find something that would add value to our franchise as opposed to taking it away and bluntly taking our focus away.

We've got to make sure that we don't do anything that does that, but let's not forget, the number one thing that I would probably go and add to what Curtis was talking about is trying to find a culture fit that works. If you sit here and you look at West Texas and you look at the transactions that we've had recently in our market, culture has been the downfall of a lot of the success of those transactions. We're going to be very, very focused on all of the things that we've talked about, whether it be liquidity, capital, loan demand, all that stuff, but culture is going to be a tremendously large part of that.

I think our franchise value that I'm most proud of is the culture that we have and the way our team pulls together.

Operator

Our next question comes from Joe Yanchunis with Raymond James.

Joseph Yanchunis

Just to piggyback on the M&A question just now, the fact that you already have that West Texas presence, do you think that would kind of mitigate any sort of cultural integration issues with some of the banks out there?

Curtis Griffith

Not necessarily. It might, but no. Culture is such a challenge out there and I'm not going to say that there aren't great banks in other parts of the state that wouldn't be a better cultural fit in some ways than some banks that are here in our neighborhood. That's just something you have to look at. It's on a case-by-case basis. I wouldn't make a generic statement that West Texas would be necessarily a better fit.

Cory Newsom

Joe, here's the thing I would tell you, I think you've got to put as much effort in trying to determine how those cultures are going to come together as you do every other aspect of the balance sheet, and it can't just be all the numbers. I think that's just a big part of it, and I think being very focused on it on the front end will make the outcome of that work, but you can't take it for granted.

Joseph Yanchunis

If I could circle back to capital, is there a capital ratio that you target to manage the bank to whether that's CET1 or TCE?

Steve Crockett

Yes, tangible common equity's one we definitely look at. We've been in the high eights. We were in the low nines, I guess previously and AOCI's kind of brought that back down. But that's one that we keep up with and we feel good with where we're at and even unfortunately, with what could occur if the bond portfolio went down a little bit more, but I think that's a ratio that we keep up with.

Curtis Griffith

We look at that CET1 as well. But at the end of the day, TCE is really what you got at the end, and I think if you don't recognize that and you're not understanding the real value of your bond portfolio, if you continue to put it in there, just at a basically an inflated number. That's really the one we look at more and yes, I think somewhere in the eights on that is a good place to run a bank.

Operator

There are no further questions at this time. I'll hand the floor back to Management for closing remarks. Thank you.

Curtis Griffith

This is Curtis Griffith. Again, thanks everyone, today for participating in the call. We continue to work through the challenges, and there are certainly a lot of them out there in the current environment. We're dealing with rapidly rising deposit costs across the economy, and we are very thankful to have the kind of long-term, long-standing depositor relationships that we do, to be fortunate to be out here in some rural markets and across West Texas that have allowed us to retain deposits a little better than some of our peers. I think we're going to still work hard to do that.

But at the same time, we see some continuing economic growth in the State of Texas. It's certainly slowed, and I think we will have to be very selective in specific areas that we're advancing our loans. We have a great team that handles the loan production and the underwriting and we're going to be very cautious in how we do that and going forward try to certainly minimize whatever loan losses may occur. I do think that as we peak out in interest rates, that there will be some difficulty out there in our loan books all across all banks and we need to be well prepared for that. We think we are, with a very strong allowance for credit loss today and we'll watch it all the time.

We continue to stress our loan portfolio and look for any cracks that may be appearing and be prepared for them. With that kind of cautious and conservative Management in place, we still think that our stock is a good place to keep your money. We're excited to move forward and take advantage of some opportunities that we do think will be coming our way in '24. I think some of those will be the result of disruptions in our local markets and we'll continue to monitor all those chances and again, we have an awesome team, and I'm so proud of them and we will continue to add additional team members when those opportunities present themselves.

With that, I'll end the call and thank everyone, for being here today.