South Plains Financial, Inc.

Fourth Quarter 2024
Earnings Call Transcript

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CORPORATE PARTICIPANTS

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Curtis Griffith, *Chairman, Chief Executive Officer*

Cory Newsom, *President*

Brent Bates, *Chief Credit Officer*

CONFERENCE CALL PARTICIPANTS

Woody Lay, *KBW*

Brett Rabatin, *Hovde Group*

Stephen Scouten, *Piper Sandler*

Joe Yanchunis, *Raymond James*

PRESENTATION

Operator

Good morning ladies and gentlemen and welcome to the South Plains Financial Inc. Fourth 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 call over to Steve Crockett, Chief Financial Officer and Treasurer of South Plains Financial. Please go ahead.

Steven Crockett

Thank you Operator, and good morning 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 and Events section of our website, spfi.bank.

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

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materially from those anticipated future results. Please see our Safe Harbor statements in our earnings press release and in our earnings presentation. All comments, expressed or implied, 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 morning. On today's call, I will briefly review the highlights of our full year 2024 results, as well as provide an update on our capital allocation priorities. Cory will discuss our loan portfolio and strong underlying demand that we are seeing, which is being partially offset by the continued headwinds of unexpected payoffs. Steve will then conclude with a more detailed review of our fourth quarter financial results.

To start, I am very proud of our performance this past year as we successfully managed through a challenging environment and delivered solid financial results. We managed our liquidity to optimize our profitability and return metrics while maintaining a conservative approach to underwriting and risk management. We believe that we are well positioned to take advantage of the opportunities that we see in the year ahead as we expect the pace of economic growth to improve, while the headwinds that we all experienced in 2024 appear to be diminishing.

Turning to Slide 4 of our presentation, we delivered diluted earnings per share of $2.92 for the full year as compared to $3.62 in 2023. As a reminder, we sold Windmark, the bank's wholly owned insurance subsidiary in the second quarter of 2023, which resulted in a $22.9 million one-time gain net of charges and taxes for diluted earnings per share of $1.32. Excluding this one-time gain, we outperformed 2023 by $0.62 per diluted share.

We grew our loan portfolio 1.4% for the full year as the loan production that built through the year helped us effectively manage the decline in our indirect auto portfolio, as well as a heightened level of loan payoffs and pay downs. As we discussed on our third quarter call, we are seeing real optimism across our customer base that is translating into the strongest new business production pipeline that we've seen in more than two years. This bodes positively for the year ahead, where we expect to deliver low to mid single-digit loan growth for the full year of 2025. We take pride in conservatively managing the bank as we strive to always under-promise and over-deliver, as we did this past year.

Turning to the other side of our balance sheet, our community-based deposit franchise held steady at $3.6 billion in 2024 as compared to December 31, 2023. Through the year, we carefully controlled our liquidity to optimize our margin and returns, as can be seen in the fourth quarter where we managed our deposits down by approximately $50 million while also experiencing our typical seasonal declines in our escrow accounts, which decreased by approximately $35 million. Our core customer deposit accounts held steady through the quarter, and we expect to see deposit balances rebuild as loan growth occurs through the year ahead. We will carefully add liquidity to match the pace of loan growth through the year.

Our community-based deposit franchise remains a competitive advantage for South Plains with 79% of our deposits in our rural markets and 21% in our major metropolitan markets of Dallas, Houston and El

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Paso. Given the make-up of our deposit franchise, we were able to re-price some of our deposits lower in the fourth quarter, which was a primary factor in driving our NIM higher by 10 basis points, and which Steve will discuss more in a moment.

As we have said many times, we will never sacrifice credit quality for loan growth, and I am very pleased with the continued strong credit quality of our loan portfolio as we enter 2025. We believe that we are well positioned for varying economic conditions.

For the full year, we delivered return on average assets of 1.17% and an efficiency ratio of 65.1%.

Looking ahead, we also believe that we continue to be in a strong position to capitalize on opportunities to drive growth as the bank and the Company each significantly exceed the minimum regulatory capital levels necessary to be deemed well capitalized. At December 31, 2024, our consolidated common equity Tier 1 risk-based capital ratio was 13.53% and our Tier 1 leverage ratio was 12.04%. Additionally, our loans held for investment to deposit ratio stood at 84% at year-end.

Given our capital position, we remain focused both on growing the bank while also returning a steady stream of income to our shareholders through our quarterly dividend. As previously announced this week, our Board of Directors authorized a $0.15 per share quarterly dividend, which will be our 23rd consecutive quarterly dividend. We also have a $10 million stock repurchase program in place which will expire no later than February 26, 2025. Our Board will consider authorizing another share repurchase plan next month as we generally believe it's important to have a buyback in place to have flexibility during volatile market environments. As we commented last quarter, 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.

Looking forward, we still expect community bank M&A activity to pick up in the coming quarters with the growing optimism that deals can now be completed much quicker under the new presidential administration and despite unrealized securities losses on bank balance sheets growing. We expect to be even more diligent looking at potential acquisitions in this environment, but we have not yet seen an opportunity that meets our high hurdle for our team to pursue. Our acquisition criteria remains focused on having a strong cultural fit with minimal dilution to our shareholders, a reasonable earn back while making real sense for the bank and our shareholders.

As activity picks up, we will remain disciplined while also weighing any deal against the economics of buying back our own shares. We see substantial organic growth ahead and are comfortable staying on the sidelines and benefiting from any disruption that does occur in our markets from competitor transactions, much like what we have experienced over the last few years.

Now let me turn the call over to Cory.

Cory Newsom

Thank you Curtis, and good morning everyone.

Starting on Slide 6, our loan portfolio increased $17.7 million to $3.06 billion in the fourth quarter as compared to the linked quarter. We experienced loan growth in commercial owner occupied real estate which more than offset the payoffs and pay downs that we continued to experience through the fourth quarter, combined with the typical seasonal decline in agricultural balances. The yield on our loan portfolio was 6.69% in the fourth quarter and was essentially unchanged from the prior quarter. We were able to keep the yield constant despite the decline in short term rates that occurred in September through December.

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Looking forward, we could experience a slight decline on the yield on our loan portfolio as we continue to have maturities and repayments across a wide range of interest rate segments.

Skipping to Slide 8, loans in our major metropolitan markets of Dallas, Houston and El Paso increased by $9 million in the fourth quarter to $1.06 billion. Our major metro markets also experienced elevated loan payoffs again this quarter which impacted growth. That said, underlying loan demand has been strong across El Paso and Houston, as well as in our Permian markets of Midland and Odessa. At quarter end, our major metro loan portfolio represented 34.6% of our total loan portfolio, continuing to demonstrate not only the scale that our lenders have achieved but also the opportunity that lays ahead for organic loan growth.

Skipping to Slide 10, our indirect auto portfolio held relatively steady at $236 million at the end of the fourth quarter as compared to $235 million at the end of the linked quarter. We've carefully managed the portfolio through the year with a focus on maintaining its credit quality as competitors have been more aggressive at the higher or better end of the credit spectrum while volumes have declined. This has resulted in a $50 million decline in loan balances through 2024, and while we anticipated this decline, it has been a significant headwind to loan growth. Importantly, we are confident that the portfolio can stabilize at current levels given the recent decline in rates, combined with improved volumes and more rational pricing. This stabilization will allow our strong underlying CRE and C&I loan demand that we are seeing begin to translate to growing loan balances.

I would also add that the credit quality of our indirect auto portfolio has remained strong through the cycle with 30-plus days past due at 47 basis points, a modest rise from the 34 basis points in the third quarter. Looking ahead to the first quarter, we expect our loan growth to be relatively flat as we typically see agricultural loans continue to pay off seasonally early in the year, while loan payoffs could continue at an elevated pace. Importantly, the underlying momentum in our business continues to build as our customers are becoming more optimistic and activity is accelerating. This can also be seen in our new business pipeline, which continues to be at the highest levels since the middle of 2022.

Turning to Slide 11, we generated $13.3 million of non-interest income in the fourth quarter as compared to $10.6 million in the linked quarter. This was primarily due to an increase of $3.1 billion in mortgage banking revenues resulting mainly from an increase of $3.5 billion in the fair value adjustment of mortgage servicing rights as interest rates that affected the value increased in the fourth quarter. The growth in the mortgage income was partially offset by approximately $700,000 of non-recurring interest proceeds received for the property damage in the third quarter of 2024.

Overall, we have effectively managed the decline in mortgage volumes, having kept the business profitable at the trough of the cycle through disciplined expense management. We believe our mortgage business is well positioned to take advantage of the eventual pick-up in residential purchase volumes when rates gradually decline, and we're optimistic looking to the spring selling season.

For the fourth quarter, non-interest income was 26% of bank revenues as compared to 22% in the third quarter. Continuing to grow our non-interest income remains a focus of our team.

I'd now like to turn the call over to Steve.

Steven Crockett

Thanks Cory.

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For the fourth quarter, diluted earnings per share was $0.96 compared to $0.66 from the linked quarter. Of note, our fourth quarter earnings were positively impacted by $0.07 per share after tax for the fair value adjustment of the mortgage servicing rights assets as mortgage interest rates rose in the fourth quarter.

Turning to Slide 13, net interest income was $38.5 million for the fourth quarter as compared to $37.3 million for the linked quarter. The rise in net interest income was largely due to a $1.6 million decline in interest expense partially offset by a decrease of $243,000 in loan interest income. Our net interest margin, calculated on a tax-equivalent basis, was 3.75% in the fourth quarter as compared to 3.65% in the linked quarter. The 10 basis point increase to our NIM was primarily due to an 18 basis point decline in our cost of deposits in the quarter as compared to the prior quarter as we effectively re-priced our interest-bearing deposits as the Fed reduced their short term interest rate. At year-end, our non-interest bearing deposits decreased to 25.8% of total deposits as compared to 26.9% in the linked quarter, largely due to the seasonal decline in mortgage escrow balances.

As outlined on Slide 14, deposits decreased by $94.8 million to $3.62 billion at December 31. Our cost of deposits was 229 basis points in the fourth quarter, a decrease of 18 basis points from the linked quarter.

Turning to Slide 15, our ratio of allowance for credit losses to total loans held for investment was 1.42% at December 31, 2024, an increase of one basis point from the end of the prior quarter. We recorded a $1.2 million provision for credit losses in the fourth quarter which was largely attributable to net charge-off activity and by increased loan balances during the quarter. Our non-performing loans totaled $24 million at the end of the fourth quarter, a slight decrease from $24.7 million in the third quarter.

Skipping ahead to Slide 18, our non-interest expense was $29.9 million in the fourth quarter as compared to $33.1 million in the linked quarter. The $3.2 million decrease from the third quarter of 2024 was largely a result of a decline of $1.4 million in personnel expenses primarily from decreased health insurance costs of approximately $675,000 and annual rebates were received in the current quarter. Additionally, we had a $400,000 reduction in mortgage commissions as mortgage activity slowed in the current quarter, given the rise in mortgage interest rates.

Looking ahead to the first quarter of 2025, we expect non-interest expense to be more in line with the third quarter’s level, given the number of one-time benefits that we experienced in the fourth quarter and including annual salary adjustments.

Moving to Slide 21, we remain well capitalized with tangible common equity to tangible assets of 9.92% at the end of the fourth quarter, an increase of 15 basis points from the end of the third quarter. Tangible book value per share decreased to $25.40 as of December 31, 2024 compared to $25.75 as of September 30, 2024. The decrease was primarily driven by an $18.2 million decrease in accumulated other comprehensive income as the fair value of available for sale securities decreased, partially offset by $14 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, and as I said, I am very proud of our financial results. We have effectively managed our liquidity to optimize our profitability and returns while taking proactive steps to ensure that we maintain the credit quality of our loan portfolio. Importantly, we are experiencing strong underlying loan demand which we believe will begin to come through as our payoffs begin to return to more normal levels. We remain

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optimistic that economic growth is set to accelerate under the new administration and are well positioned to drive organic growth across both our community and metropolitan markets as we focus on expanding the bank and delivering value to all of our stakeholders.

I would also like to thank our employees for their hard work over the last year. They are the key to our success, and I am grateful for their continued commitment to our bank and our customers.

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

Operator

Thank you. Our first question comes from the line of Woody Lay with KBW. Please proceed with your question.

Woody Lay

Hey, good morning guys.

Curtis Griffith

Hey Woody, good morning.

Woody Lay

I wanted to start with the loan yield in the fourth quarter. I mean, it was pretty impressive to see that be relatively flat quarter-over-quarter, given the rate cuts. Any color on what allowed the loan yield to remain stable? There wasn't any sort of one-time interest benefit, was there?

Steven Crockett

Hey Woody, this is Steve. There was a little bit, less than $200,000 of non-accrued interest that we got, not necessarily out of line with what we see in other quarters. Really, between that and we had some loans paying off that were at lower rates, quite frankly, which we were glad to see, even some of the 4%, 5% loans pay off, and then some of the new loans being booked that are at rates higher than what the average is, so overall again, we were very pleased with where that ended up, but no real one big-time non-recurring item.

Woody Lay

Got it, that's helpful, and then any expectations near term for the margin? Do you think it can remain stable around the 3.75% level, or is there a chance that it could even move higher?

Steven Crockett

You know, we've had a lot of discussion about that. We're going to be more conservative, as you know, in what we would say. I mean, I would hope we could keep it where it's at and hopefully incrementally improve, but a lot of that is really going to depend on loan growth and where that kind of ends up. I mean, you'll see us—deposit costs will still come down just a little bit as we flush out the rate cuts that were done midway through the quarter and things like that, and loan yields may trend down slightly, just depending on where all that ends up for a full quarter after those cuts. Overall, with the right loan growth, I think we could see it stabilize and maybe grow incrementally.

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Cory Newsom

Woody, this is Cory. I think the one thing that's going to help us do that is the fact that our liquidity position is where it is. It just gives us some opportunities to make sure we're not over-pricing on the cost side.

Woody Lay

Yes, that's a good point.

Curtis Griffith

Woody, this is Curtis. Like for everybody - you know this - a lot's going to depend on what the Fed decides to do. If they move forward with more rate cuts, and the President indicated he'd sure like to see that, we'll see where we go; but certainly rate cuts in our case will likely help our NIM. It may not be, you know, again one-for-one, but I think we would continue to gain by lower short term rates, but we'll just have to see where that goes.

But I kind of agree with Cory and Steve - we've got a lot of things in place that we should still see minor improvements in the NIM, but it may not be quite as strong as what we saw in the fourth quarter, but I think we'll continue to get some improvements through the year.

Woody Lay

Right, well you've all consistently been beating the NIM guide, so we'll see how it turns out.

Lastly on the loan pipeline, I mean, it's great to hear all the color around the new customer activity. Is that concentrated in any one segment, and then is it a reflection of new hires or is it just a reflection of hard work?

Brent Bates

Yes Woody, this is Brent. You know, it's a combination, I think of all those factors. We have good production from new hires, but really I think we've gotten a lot of optimism we're seeing from our clients and capital outlays that they're planning to make. Our pipeline is much better than it was this time last year, so we feel optimistic about it too.

Woody Lay

All right, that's all for me. Thanks for taking my questions.

Curtis Griffith

Thanks Woody.

Operator

Our next question comes from the line of Brett Rabatin with Hovde Group. Please proceed with your question.

Brett Rabatin

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Hey guys, good morning.

Curtis Griffith

Morning Brett.

Brett Rabatin

Wanted to start on the payoffs. You talked about it quite a bit, but if you gave it, I missed the number, the number or dollar amount of payoffs that you guys had in the quarter, and then it sounds like the pipeline continues to build. I guess I'm a little surprised you're being a little conservative in saying low to mid-single digit loan growth. I thought that number might be more mid to high single digits, so was just hoping for some additional color on that.

Cory Newsom

Hey Brett, you're surprised we're being conservative?

Brent Bates

Yes Brett, I mean, we are striving to over-deliver on that, but payments were higher in the fourth quarter and frankly some of that is nothing to apologize for. Our clients had experienced some liquidity events. We had several that had liquidity events, either decided to settle their real estate or had significant excess liquidity and decided to reduce debt, and that's good for them and we're fine with that. We want to see our clients succeed in what they do.

You know, we may see a little bit more of that with customers selling assets, and that could be—I think we're thinking that could be repeated in the first, maybe second quarter, but we still feel confident in our pipeline and ability to—that production will outpace those, if that makes sense.

Cory Newsom

Brett, one of the things that I was kind of pleased to see on a number of the payoffs that we had - I mean, you're going to have the seasonal stuff that comes along, you're going to have the stuff that we have no control over, so what was really nice was to see some of the transactions that we had that were life events, that actually happened to people that converted into investment opportunities for us on the other side that stayed here. It goes back to the relationship aspect of what we fight for daily.

Brett Rabatin

Okay.

Then the other thing I wanted to ask about was just M&A and—you know, your capital ratio has gotten pretty healthy. I don't know if you're thinking about using the buyback more at some point, but you briefly mentioned M&A and talking about that. Can you talk maybe a little bit more about what you're seeing from maybe potential partners? Is there a lot of interest from community banks at this point? What's your outlook for the potential acquisition market?

Curtis Griffith

We continue to see an increase, I think in the number of ideas that are pitched to us by the investment bankers. They're looking at this as a real opportunity. They, as you well know, have had a couple of pretty

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lean years. So far, we haven't really seen anything that we liked quite well enough to get down to really trying to negotiate pricing on it. Indications are that you've got a lot of sellers, good banks that are still expecting probably a higher multiple than the market's ready to give right now, and as we keep saying, we want the right deal. We'd rather not do anything at all, rather than do one that's not going to benefit our shareholders long term.

That's not just banking, but if you look at it, so many businesses out there make a larger acquisition and their stock suffers for quite a while, so we see no point in doing that. We want to do something that everybody is going to like and see the real value of, and that the acquired institution would be very happy to be joining our fold, so we're going to keep our eyes out and we do continue to see more and more opportunities out there, both in our part of the state and other parts of Texas as well.

My guesstimation is we'll probably have something to talk about, maybe later in the year, but we don't know until we really see it. The environment for doing something is certainly better than what it's been.

Cory Newsom

Brett, this is Cory. I think the one thing that I would tell you, though, is if you look at us, I don't think we've ever been as well positioned as we are today to do an acquisition, and that's—we've just got to find the right one, but we are very much focused on it.

Brett Rabatin

Okay. Appreciate all the color, guys.

Cory Newsom

Thanks Brett.

Operator

Our next question comes from the line of Stephen Scouten with Piper Sandler. Please proceed with your question.

Stephen Scouten

Yes, good morning everyone. Thanks.

I'm not sure, Steve, if you gave this data earlier to one of the questions - I might have missed it, but can you give us a feel for where new loan yields are coming on versus maybe some of where the portfolio yields are rolling off at?

Steven Crockett

Yes, I would say they're in the seven range. It could be all over in the sevens, but generally probably in the low to mid. There'd be some in the high, but that lower end probably.

Stephen Scouten

Got you, and that's coming off the books where some of these fixed rate loans re-price on the average?

Cory Newsom

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Yes, I think—I mean, help me understand your question again?

Stephen Scouten

Yes, so I mean, what is it - your total average yield is, like, 6.69, but I imagine some of the fixed rate loans that are coming off the books and re-pricing in that 7% range are probably more in the, I don't know, 4% to 5% range, I would guess? There's probably some five-year-old loans that are in that range, but just trying to get a feel for that kind of on-off yield dynamic.

Steve Crockett

Yes, we've got some there, but quite frankly, we've had some payoffs of loans at the higher yields as well. But yes, the fixed rate stuff generally is going to be in the upper 4s and 5s that have been coming off.

Stephen Scouten

Okay, so it's still potentially getting 150, 200 basis point pick-up some of that fixed rate loan book as it re-prices?

Steve Crockett

Yes.

Cory Newsom

I think one thing, Stephen, to keep in mind, if you look at the quality of our portfolio, it's never going to be the highest portfolio out there because the credit quality is good, and so we really try to stay competitive, we try to price it to market, and I really do feel good about the stuff that we're seeing coming in, whether it's the spreads around prime—you know, that's really what we price a lot of our stuff off of.

Stephen Scouten

Yes, no, for sure. I'm just kind of thinking about the NIM dynamic. I know obviously—I think your NIM would respond best with some lower rates, given slight liability sensitivity, but with the fixed rate loan book, I would think you could still see some NIM expansion throughout the year in a stable rate environment. Would you agree with that?

Curtis Griffith

I absolutely would. That's the reason I still feel confident we'll get some NIM expansion moving through '25, because again—just keep rates exactly where they are, and if our business pipeline moves as we think it will, you'll see a moderate increase in NIM, nothing dramatic but it will continue to move up, probably not down. If we got slightly lower short term rates, it should move a little more in our favor, I think.

Stephen Scouten

Yes, yes. No, that's great.

Okay, and maybe just for me—you know, in full honesty, I've been getting most of my Texas economic information from the show, Landman, so I'd love to get kind of your thoughts on what the potential drilling

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activity down in the Gulf of America could do in your view, your economy—I mean, how that price of oil could affect your economies and overall loan demand, how you're thinking about that.

Cory Newsom

Everybody's talking about more insurance for these well blowouts that are happening apparently now, so that's probably going to impact it.

Price, though—where the price of oil is right now, we're seeing—our service guys are—I mean, they're very optimistic about what their future is right now. Brent, do you…

Brent Bates

Yes, I'd 100% agree with that. I think there's a lot of optimism in the Permian and in our markets, in part because of just energy prices. This region is probably the lowest cost to produce area in the country, and obviously the highest volume, so there is a lot of activity. You see it when you drive down there. It's just—so I think we'll have opportunities around that and, frankly, that's part—a part of the reason why our pipeline has expanded so much, I think is just optimism around general economies.

Cory Newsom

If you look at the—I mean, if you look at the size of the bank, if you look at the size of the customers that we actually bank in those markets, they're a lot of times the lower cost provider and they're seeing good opportunities in those markets right now. I mean, we're continuing to see good lending opportunities as a result of it as well.

Curtis Griffith

On a more micro scale, nobody wants to see oil price down in the 50s, at least in our parts of Texas, so I don't think we'll see that. But as we know, one of Mr. Trump's new good friends, apparently, is going to get arms twisted to push the world rate down some. We'll see where it goes, but realistically if oil prices stay about where they are, the somewhat relaxed regulations, we'll see more drilling than what we've seen.

You make a good point - while we don't lend into that market as such, you could really see offshore drilling pick up for the next two to four years, and for places like Houston generally, that's a good macro event for that economy. It will really help drive overall business in the Houston market.

Cory Newsom

Stephen, just one last thing. Just know that we underwrite to much cheaper oil.

Stephen Scouten

Got it, got it. Yes, that's helpful, and that's kind of what I was hoping to hear, and that's helpful. It sounds like the Permian maybe in and of itself as an area could do a little bit better, given its lower cost to produce, so let's say drilling activity—it hasn't happened yet, but it does take down the price per barrel into the 60s or whatever, the Permian should be more insulated from any negative impacts than other parts of the country, is what I hear you saying?

Curtis Griffith

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Yes, absolutely.

Cory Newsom

For sure.

Stephen Scouten

Got it, that's super helpful. Thank you guys for the color. Congrats on a great '24.

Curtis Griffith

Thanks.

Operator

As a reminder, if you would like to ask a question, press star, one on your telephone keypad.

Our next question comes from the line of Joe Yanchunis with Raymond James. Please proceed with your question.

Joe Yanchunis

Good morning.

Curtis Griffith

Morning Joe.

Cory Newsom

Joe, how are you doing?

Joe Yanchunis

I'm doing great. I kind of want to start on loans here for a moment. I appreciate the detail and the depth on the loans coming up for renewal, but as they come up for renewal, do you have a sense kind of historically speaking for how much of these loans you typically retain, versus what's being rolled off? Just trying to get a little deeper sense into that re-pricing opportunity, with how much stays at the bank.

Cory Newsom

Brent, before you—I mean, the good thing for us, though, is we have a lot that come up for re-pricing that are not up for renewal, which plays a big role in what we do. But Brent, I'll let you…

Brent Bates

That's right, yes. That's re-pricing, those aren't all maturing. We've so far been pretty successful at retention of re-priced loans. Of course, there are times—and that's part of the payoff experience we've had in the fourth quarter, where customers have just decided to take advantage of gains and recapture equity in projects, and that's okay too. I mean, we retain those relationships. We may have lost the loan but we retain the relationship, so it's kind of tough to predict who's going to decide to do that.

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But as far as the loans that we wanted to retain, we've retained them.

Cory Newsom

Yes, and Joe, one thing that helps us is the ones that are up for re-pricing and not necessarily maturity, the refi penalty still stays, so that's always on the table. We at least have that to try to help us from a negotiations standpoint. We don't wait until these things are right at maturity. We're working them way early.

Joe Yanchunis

That's very helpful.

Then just kind of shifting over to credit, in the prior quarters, you've discussed optimism around resolving a rather chunky multi-family prob loan. Can you provide an update on how that process is progressing?

Brent Bates

Yes, it's paying and it's—we're working the plan just like we'd expected. So, I still feel really good about our credit quality and the trends and direction. I mean, we're not unique in the fact that—I mean, we'll see other challenges, I'm sure, and we'll work through those as we get them, and—but as far as where we're at today, I'm optimistic with not only what we've done but what I expect we'll do in the future.

Cory Newsom

I think we've done a good job of trying to identify what challenges we think we're going to have and start working them early.

Joe Yanchunis

Understood. That's all for me. Thank you for taking my questions.

Steven Crockett

Thanks Joe.

Curtis Griffith

Thanks Joe.

Operator

Thank you.

Mr. Griffith, we have no further questions at this time. I would like to turn the floor back over to you for closing comments.

Curtis Griffith

Thank you, Operator. As we've said today, South Plains Financial is well positioned for many opportunities and for what we believe multiple economic scenarios. Our customer optimism is the best in

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a long time. I've seen some material—I'll give credit to Mr. Tom Brown's newsletter over the last week, national survey data shows that small business optimism is at its highest since 2018, and we do think that's going to translate into some loan growth for us and just better economic conditions all over. Our credit quality remains strong. We're always aware of the risks out there. We're going to continue to work on that. We'll continue to focus on controlling expenses and increasing NIM, and we'll be ready if the right M&A deal comes along, and we'll continue to be looking for opportunities in all of our sectors.

We thank you for your time today and look forward to visiting with you, if you ever have any questions for us. Thank you.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

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