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Market Intelligence

Southside Bancshares, Inc. NYSE:SBSI

Earnings Call

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Call Participants

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Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to Southside Bancshares, Inc. First Quarter 2026 Earnings Call. [Operator Instructions]

I will now hand the conference over to Lindsey Bailes, Senior Vice President, Investor Relations. Lindsey, please go ahead.

Lindsey Bailes

Senior VP & Investor Relations Officer

Thank you, Rebecca. Good morning, everyone, and welcome to Southside Bancshares First Quarter 2026 Earnings Call. A transcript of today's call will be posted on southside.com under Investor Relations. During today's call and in other disclosures and presentations, I'll remind you forward-looking statements are subject to risks and uncertainties. Factors that could materially change our current forward-looking assumptions are described in our earnings release and our Form 10-K.

Joining me today are President and CEO, Keith Donahoe; CFO, Julie Shamburger; and Chief Treasury Officer, Suni Davis. Keith will start us off with his comments on the quarter, then Julie will give an overview of our financial results, and Suni will end with comments on securities and funding. We will have a Q&A session following Suni's remarks. I will now turn the call over to Keith.

Keith M. Donahoe

CEO, President & Director

Thank you, Lindsey, and welcome to today's call. We are pleased to report solid financial results for the first quarter of '26. Highlights include strong linked quarter loan growth of 2.7%, increased earnings per share of \$0.78, improved annualized return on average assets of 1.10% and an annualized return on average tangible common equity of 14.39%. Lower funding costs resulted in a \$441,000 linked quarter increase in net interest income and an improved NIM of 3.01%. Our funding costs benefited from the February 15 redemption of approximately \$93 million of subordinated debt, which had an interest rate of 7.51%. Second quarter funding costs will also benefit from this redemption.

First quarter loan growth was driven by strong new loan production, combined with lower-than-expected payoffs. Although we experienced strong first quarter loan growth, we continue to target mid-single digits for 2026 loan growth due to an expected return to elevated payoffs for the remainder of the year.

New loan production of approximately \$431 million compared to \$327 million in the prior quarter. Of the new loan production, approximately \$240 million funded during the quarter with the unfunded portion of this quarter's production expected to fund over the next 6 to 9 quarters. Excluding regular amortization and line of credit activity, first quarter payoffs totaled approximately \$113 million and represents the lowest payoff amount during the past 4 quarters. The single largest payoff during the quarter was the \$27.5 million multi-family loan previously included in our non-performing asset category.

In mid-February, the borrower successfully refinanced the loan balance with a life insurance company. Additional payoffs during the quarter included an office building, several small retail centers, an industrial warehouse, a skilled nursing facility and several commercial land loans. Our loan pipeline today totals approximately \$1.3 billion, down from the mid-quarter peak of about \$2 billion. Despite the reduction, our won but not closed category remains healthy at just over \$331 million.

The pipeline remains well balanced with approximately 44% term loans and 56% construction and/or commercial lines of credit. This is relatively unchanged from the fourth quarter mix. C&I-related opportunities represent approximately 24% of today's total pipeline. This is up slightly from year-end total of 20%.

During the quarter, we migrated 4 multi-family loans and 1 office loan to substandard. The 2 multi-family loans originated as construction loans and are currently experiencing slower lease-up and lower rents than originally underwritten. The remaining 2 multi-family projects originated as term loans and have experienced a decline in occupancy and reduced rental rates. All 4 credits are supported by experienced real estate borrowers, including equity partners providing financial support. Over the next 6 to 12 months, we expect successful resolutions either through open market sales or refinances. Despite the substandard increase, credit quality remains strong.

During the first quarter, non-performing assets totaled \$9.7 million, a decrease of \$28.5 million from December '25. The reduction was primarily related to the previously mentioned \$27.5 million multi-family loan, which paid off in February. As a percentage of total assets, non-performing assets remained low at 0.11%.

Other first quarter activities included replacing our Woodlands loan production office with a full-service branch and a new branch in our fast-growing home market of Tyler. Additionally, we are particularly excited to report the hiring of a 30-year wealth management veteran charged with building out our wealth management team and expanding our platform throughout the Dallas/Fort Worth market.

When considering our net income, earnings per share, expanded footprint and a key hire in our wealth management group, we had an excellent quarter. Overall, the markets we serve remain healthy and the Texas economy is anticipated to grow at a faster pace than the overall projected U.S. growth rate.

With that, I'll turn the call over to Julie.

Julie N. Shamburger

Chief Financial Officer

Thank you, Keith. Good morning, everyone, and welcome to our first quarter earnings call. We're pleased to report a solid start to 2026. For the first quarter, we reported net income of \$23.3 million, an increase of \$2.3 million or 10.8%. Diluted earnings per share were \$0.78 for the first quarter, an increase of \$0.08 per share linked quarter or 11.4%. As of March 31, loans were \$4.95 billion, a linked quarter increase of \$128.2 million or 2.7%. The linked quarter increase was driven by increases of \$93.2 million in construction loans, \$40.6 million in commercial real estate loans and \$12.2 million in the commercial portfolio, partially offset by decreases of \$9.6 million in municipal loans and \$7.1 million in 1-to-4 family residential loans.

The average rate of loans funded during the first quarter was approximately 6.3%. As of March 31, our loans with oil and gas industry exposure were \$72.1 million or 1.5% of total loans, a slight increase compared to \$71 million linked quarter. Non-performing assets decreased to 0.11% of total assets at quarter end, a result of the payoff of the \$27.5 million commercial real estate loan restructured in the first quarter of 2025 and to a lesser extent, a decrease in our non-accrual loans.

Our allowance for credit losses increased to \$49.6 million for the linked quarter from \$48.3 million on December 31. Linked quarter, our allowance for loan losses as a percentage of total loans decreased 1 basis point to 0.93% at March 31.

The securities portfolio increased \$164.3 million or 6.1% to \$2.87 billion on March 31 when compared to \$2.7 billion at year-end. The increase was driven by purchases of \$313.5 million in mortgage-backed securities during the first quarter. As of March 31, we had a net unrealized loss in the AFS securities portfolio of \$16.3 million, an increase of \$15.5 million compared to \$767,000 last quarter. There were no transfers of AFS securities during the first quarter.

On March 31, the unrealized gain on the fair value hedges on municipal and mortgage-backed securities was approximately \$1.95 million compared to \$788,000 linked quarter. As of March 31, the duration of the total securities portfolio was 7.4 years compared to 7.6 years at December 31, and the duration on the AFS portfolio was 4.7 years compared to 4.8 years on December 31.

At quarter end, our mix of loans and securities was 63% and 37%, respectively, a slight shift compared to 64% and 36%, respectively, at year-end. Deposits increased slightly by \$9.3 million or 0.1% on a

linked-quarter basis. Broker deposits increased \$110.7 million, however, partially offset by a decrease of \$82 million in retail deposits and \$19.4 million in public fund deposits. We redeemed our \$93 million of subordinated notes due in 2030 during February. And at the time of the redemption, the notes had an interest rate of 7.51% and we recorded a loss of \$791,000 on the redemption of the notes. We expect to see further savings in our funding costs during the second quarter as a result of the redemption.

Our capital ratios remain strong with all capital ratios well above the threshold for well capitalized. Liquidity resources remained solid with \$2.68 billion in liquidity lines available as of March 31. We did not repurchase any common stock during the first quarter, and we have approximately 762,000 shares remaining that are authorized for repurchase.

Our tax equivalent net interest margin was 3.01%, an increase of 3 basis points on a linked quarter basis, up from 2.98% for the fourth quarter of 2025. Our tax equivalent net interest spread for the same period was 2.38%, an increase of 7 basis points from 2.31%. The increase in the net interest margin and net interest spread is primarily due to lower funding costs. And for the 3 months ended March 31, we had an increase in net interest income of \$441,000 or 0.8% compared to the linked quarter.

Non-interest income, excluding the net loss on sale of AFS securities, decreased \$303,000 or 2.3% for the linked quarter due to a decrease in deposit services income and a decrease in BOLI income, partially offset by an increase in other non-interest income.

Other non-interest income increased primarily due to an increase in swap fee income. Non-interest expense was \$40.6 million for the first quarter, an increase of \$3.1 million or 8.3% compared to the linked quarter. The increase was largely driven by an increase in salaries and employee benefits, loss on the redemption of sub-debt, software and data processing and other non-interest expense.

Salary and employee benefits increased due to normal salary and employment tax increases at the beginning of the new year, additional stock compensation and a one-time retirement expense related to a new split-dollar agreement of approximately \$420,000. Other non-interest expense increased primarily due to an increase in non-service costs of retirement expense and a non-recurring credit received in the fourth quarter.

I mentioned during the last call that our budget indicated an increase of approximately 7%. Absent the loss on redemption and the one-time retirement expense of \$420,000, the linked quarter increase would have been a little over 5%. Our fully taxable equivalent efficiency ratio increased to 54.98% as of March 31 from 52.28% as of December 31, primarily due to the increase in non-interest expense.

For the second quarter of 2026, we anticipate non-interest expense of approximately \$40.5 million for the remaining quarters. We recorded income tax expense of \$5 million compared to \$3.8 million in the prior quarter, an increase of \$1.25 million. Our effective tax rate was 17.8% for the first quarter, an increase compared to 15.3% last quarter. And we are currently estimating an annual effective tax rate of 17.8% for 2026.

At this time, I will turn the call over to Suni. Thank you.

Suni Davis
Chief Treasury Officer

Thank you, Julie. The MBS purchases in the first quarter have coupons ranging from 4.5% to 5.5%, a duration of 7 years and yield of 5.24%. Approximately 1/3 of the purchases occurred late in the quarter and were essentially pre-purchases of April and May cash flows due to an opportunity in the market. These were purchased at discounts, which will act as a hedge to the earlier purchases should prepay speeds increase. This 1/3, or approximately \$106.6 million at a rate of 5.44%, was not reflected in the yield of the securities portfolio in the first quarter.

We expect to reinvest future cash flows from the securities portfolio into AFS MBS and maintain the balance of securities at approximately \$2.7 billion to \$2.8 billion. If presented with an opportunity similar to the one in March, we may repurchase again. The principal cash flows we received during the quarter were \$127 million or an average of \$42.3 million per month, which includes \$20 million from the maturity

of 2 MBS balloons held in HTM. I anticipate a pickup in prepaids in the second quarter due to a higher MBS balance, lower mortgage rates through early March and lower spreads.

The spot rate on our CDs was 3.74% at quarter end compared to the average rate of 3.79% for the first quarter. CDs totaling \$568 million with an average rate of 3.83% will reprice this quarter. We expect to retain most of these deposits and estimate an interest savings of roughly 10 basis points. Additionally, \$1.06 billion with an average rate of 3.79% will reprice by year-end.

As Julie mentioned in her comments, our public funds decreased. There was some seasonality to this decrease. In Texas, various public fund entities collect ad valorem taxes in the fourth quarter through January of the following year, then disbursed some of those funds prior to the end of the first quarter. There were also construction draws from bond funds we hold for a couple of public fund entities as well as February debt service payments. I expect public funds in the second quarter to increase from the March 31 balance. Many of our public fund, non-maturity accounts have floating rates that adjust as frequently as weekly.

We have certain non-maturity deposit accounts with exception pricing and the last adjustment made to the exception priced accounts was December 11, '25, following the FOMC's 25 basis point Fed funds reduction on December 10. The beta was 69% on the exception priced accounts and the beta on all noninterest-bearing non-maturity deposit accounts, net of brokered and public funds was approximately 25%. I estimate using the same beta if there is a short-term rate cut in 2026.

We have seen a higher cost on recently acquired deposit accounts versus existing account balances. In the first quarter, new deposit accounts, excluding brokered and public funds had an average rate of 2.37% versus account -- versus existing accounts averaging 1.58%. However, the rate on the new accounts in March showed a downward trend to 2.06%. Reciprocal deposits were \$363 million at quarter end, a decrease of \$13.9 million linked quarter, primarily due to a reduction in one relationship. Many of these accounts are included in the exception pricing. 84% of reciprocal deposits are commercial and 16% are consumer.

Our wholesale funding increased \$370.5 million linked quarter to \$1.4 billion due primarily to fund the \$128.2 million increase in loans and the \$164.3 million increase in securities. The increase in wholesale funding includes increases in FHLB advances of \$104.8 million, \$110.7 million in brokered deposits and \$155 million in Fed discount window borrowings.

We utilize a mix of wholesale funding sources and navigate between them based on rate and term offered and the current ALCO strategy. We have increased our collateral at the discount window, and we'll continue to utilize this source of short-term funding due to rate and prepayability. During the first quarter, \$245 million of cash flow swaps at a rate of 2.7% matured. It was, however, necessary to retain the funding and the rate on the new borrowings is approximately 3.75%. We have another \$25 million in cash flow swaps maturing in November at a current rate of 4.62%. After this maturity and some amortization related to past unwind is fully expensed in October, the rate on our cash flow swaps will drop to approximately 3.53%, assuming SOFR is unchanged.

We unwound \$155 million in municipal loan swaps during the quarter, creating a small gain that will be accreted over the life of the previously hedged items. This slightly improves our interest rate risk position in rates-down scenarios. We no longer have any municipal loan swaps.

We have a notional of \$258.1 million in fair value hedges on municipal and MBS securities. Approximately 38% of our loans have fixed rate and 62% have a floating-rate and approximately 81% of the floating rate loans have floors. We have \$344.2 million in fixed-rate loans that mature or reprice in the next 12 months. Approximately \$209 million of these loans have rate at or below 4%. Approximately \$44 million of the loans with rates at or below 4% reprice or mature in the second quarter.

We estimate a lift in the NIM as these loans reprice throughout '26 and during the first quarter of '27. Our budget included 2 short-term rate cuts of 25 basis points, one in June and another in September. Should rates remain at quarter end levels through year-end, we expect a positive impact on the NIM versus budget as we are asset sensitive.

Thank you for joining us today. This concludes our comments, and we will now open the line for your questions.

Question and Answer

Operator

Your first question comes from Brett Rabatin from StoneX Group.

Brett Rabatin

I wanted to start on just the loan growth outlook in the mid-single-digit guide and solid production in the quarter, lower payoffs aided the first quarter, I think I heard the number of \$113 million for payoffs, but that number is expected to go higher. Can you maybe give us any color around what you're expecting for payoffs in 2Q or 3Q? And then just the production pace, if you expect that to continue at the current level or what it was during 1Q?

Keith M. Donahoe

CEO, President & Director

Yes. I'll start with the production side. I do anticipate us to continue to produce new loans at a similar rate. We've talked about it internally that we're seeing good activity. The pipeline is down a little bit, but I think that has way more to do with the loan officers were hunkered down, closing new transactions in the first quarter. And so they're coming up for air, and they're going to rebuild that pipeline. We were fortunate we didn't see as many payoffs in the first quarter, but we do know we've got a number of real estate assets that are individually rather large that are going through their normal cycle. We were predominantly a construction lender for a long time. And so those have technically a finite life that they build and lease up and then move into either a sale or open market refinance with other lenders on a permanent basis. So we know we've got some of that coming. And so I'm hedging our bet a little bit that it's too early to call a change in our loan growth at this point because we do know we have a number of projects that are teeing up to get refinanced or sold.

Brett Rabatin

Okay. That's helpful. And then maybe, Julie, on the funding costs, the money market decreases have, kind of, slowed, the CD portfolio might still be an opportunity. But I think you mentioned the 237 for new accounts in the quarter. I don't know if that includes CDs, but just any thoughts on the ability to further lower funding costs from here if rates don't move? And then I heard you mention the margin will be up. There's a lot of moving parts in that. I was just hoping if you could give us a little more color on the magnitude that you're expecting for 2Q or 3Q.

Suni Davis

Chief Treasury Officer

Sure. This is Suni. So yes, the 237 did include CDs. And we do feel like we can save some interest expense on the CDs, maybe 10 basis points. And that may be conservative. During Q1, we had some local competition pretty heavily for CDs, short-term CDs paying well over 4%, and that has ended. So we did see some exit of deposits related to that, but it's over. And so yes, at least 10 basis points, maybe more, we picked up, what, 20 or 21 linked quarter. So -- and we've also looked at some exception pricing. We've made a few adjustments there, even though Fed has held rates steady, but I mean those are minor.

Operator

Your next question comes from Stephen Scouten with Piper Sandler.

Stephen Kendall Scouten

Piper Sandler & Co., Research Division

I guess maybe sticking on that NIM conversation. Can you quantify what the expected benefit is in the second quarter on a basis point level from the sub debt? And then kind of what you think you could see from just asset repricing and the CD benefits?

Julie N. Shamburger*Chief Financial Officer*

So let's see, on the sub debt for the 3-month quarter, it was \$741,000. So expect to see -- I mean, obviously, the balance is going to be much smaller for the -- well, it's going to be about \$147 million for the average in the second quarter, and it will be just over 7% with the amortization of the discount. So I haven't calculated what I expect that to be, but that \$741,000 that you see for the first quarter is going to come down to the low 7s on that roughly \$147 million balance.

Stephen Kendall Scouten*Piper Sandler & Co., Research Division*

Okay. That's really helpful. And then just maybe on the expense front, I think you said that \$40.5 million kind of per quarter, which probably I haven't done the math yet, still keeps you in that 7% range, I imagine. Would you expect that, that would allow you to deliver year-over-year operating leverage at this point in time? And is that kind of, I guess, the minimum goal for you all as you think about the progress for the year?

Julie N. Shamburger*Chief Financial Officer*

Yes. I mean, I believe that we're going to be at the 7%, hopefully under, but I don't think -- I don't expect us to go over that 7%. It was just a couple of these larger items were kind of front-loaded into the first quarter by the nature of the timing of the events. So the \$40.5 million may be a little heavy for second quarter. But I think on average, that's probably where we're going to end up. And I'm still, at this point, expecting the 7% annually. Does that help?

Stephen Kendall Scouten*Piper Sandler & Co., Research Division*

Yes. I mean, I guess like from an operating leverage perspective, just as we think about maybe the efficiency ratio and how that all comes together, I mean, would you expect that on a year-over-year basis to decline for the full year '26?

Julie N. Shamburger*Chief Financial Officer*

I expect some improvement in the efficiency ratio in the second quarter for sure. The \$791,000 was excluded in the calculation of the efficiency ratio as we've always excluded like a one-time loss on a redemption. But like, for example, the \$420,000 that I mentioned was not excluded, appropriately not. And so that will not occur again in the second, third and fourth quarter. And so I expect an improvement in the efficiency ratio for the second quarter.

Operator

Your next question comes from Michael Rose with Raymond James.

Michael Edward Rose*Raymond James & Associates, Inc., Research Division*

Just going to the capital standpoint, ratio is still really good. I noticed you guys didn't buy back any stock in the quarter. I assume some of that was related to maybe just the redemption of the sub debt and some of the other actions in terms of buying securities, things like that. But any sort of outlook for what we might want to expect for repurchases as we move forward?

Keith M. Donahoe*CEO, President & Director*

We'll continue to be opportunistic in that regard. Our stock is doing pretty well right now. So historically, when we've gone in and repurchased shares, it's usually when we're seeing a little bit of some downward pressure. But from a capital deployment standpoint, we are -- it's kind of a close first and second

opportunity. M&A is definitely part of our strategy. Stock buyback is there, is a close second. But we're also organically growing. And so we're being judicious and we'll continue to deploy capital where we think we're going to get the fairest return.

Michael Edward Rose

Raymond James & Associates, Inc., Research Division

All right. Helpful. Maybe just switching gears to fees. Nice step-up this quarter still some good momentum in the trust business, which I know you guys have invested in. Just wanted to see if there's any kind of updated expectations from kind of last quarter. And then if there was anything in the other expense line because that was up both year-over-year and sequentially.

Keith M. Donahoe

CEO, President & Director

Yes. On the trust fees, I'm really excited. I think we all are very excited that we were able to pick up an individual in the Fort Worth market that has a tremendous amount of experience in a network that I think we will benefit from. I can't guarantee you we're going to see that lift this year, but it wouldn't surprise me to get a little bit of a lift throughout the rest of the year. She's just getting her feet underneath her, but I'm really excited about it and look forward to strong growth in the Fort Worth market. I think we also picked up some fees from swap income.

Julie N. Shamburger

Chief Financial Officer

Yes. I mean, our trust fees and our brokerage services were both up slightly from fourth quarter, but significantly over the first quarter of 2025. You mentioned year-over-year. So those were both -- we saw a really nice increase year-over-year in those 2 categories as well as the swap fee income, as I mentioned earlier, was up a good bit.

Keith M. Donahoe

CEO, President & Director

That's something that we -- that's intentional. We really made an intentional approach to continue to generate swap income. Granted, that is somewhat market-driven. So -- but we -- every relationship manager is with the appropriate customer. They are talking to them about swaps. We are -- as Suni mentioned, I think 38% is what our loan book is, that's fixed on our balance sheet. That's a significant decline over the last 2 years. And that was intentional because we wanted to get to a point that we could manage our NIM a little bit better. Granted, you're going to have 2 sides of the equation working at the same time from a funding cost and from a lending perspective, but we're becoming more disciplined in that.

Operator

Your next question comes from Woody Lay with KBW.

Wood Neblett Lay

Keefe, Bruyette, & Woods, Inc., Research Division

I wanted to start on credit. And it was great to see NPAs improved quarter-over-quarter with that restructured loan paying off. You did mention there were a couple of downgrades in the multi-family book. So just given some of the moving pieces, I was just curious on you all's perspective on sort of the local multi-family market and how it's performing? And is it certain markets that are showing weakness? Is it individual projects? I would just love your thoughts there.

Keith M. Donahoe

CEO, President & Director

Yes. So it is -- to give you a little bit of color on that, so the 4 multi-family projects that we moved down or downgraded, 2 are in the Houston market, 1 is in the Dallas/Fort Worth market, and one is in the Austin

market. So it's -- I don't think we are -- I know we're not we're not unique. Any Texas-based lender that's been doing multi-family construction and term loans have seen a weakness. I'm not concerned about these.

And to give you a little bit of color, they average about \$33 million each. They -- we've gotten new appraisals on 3 of the 4 assets, and we are sub-60% loan-to-value on those. The real issue is that there's -- across the state in the metropolitan markets, there's been a ton of supply. I know that's nothing new to everybody listening, but we continue to see concessions offered from a rental rate standpoint.

The good news is in several of the markets, we do believe that the occupancy or really the vacancy has peaked. And so it's a matter of time for these assets to stabilize. We do expect -- one of these we expect will get refinanced by a debt fund sometime before the end of the second quarter. That's the plan. They actually have a written term sheet. We also anticipate one of our borrowers is posting -- running an auction, not an auction, but they're running a process right now to sell the asset. They also have started early enough that in the event they don't get a number they like, which we think they will. But if they don't, they'll still have the ability to go refinance it before the maturity.

So it's a combination of things, but predominantly, it's just a supply issue. Demand is still there. Each project continues to lease up quarter-to -- month-to-month or positive on lease-up. It's just concessions are still in place at 3 of these projects, if you just let the concessions burn off, they are in a more traditional over 1.10, 1.15 to 1.20 DSCRs. So hopefully, that provides some color. Again, not overly concerned about these, especially given the borrowers and their equity partners, these are folks that have been around the real estate world for a long time, and we've got long-term relationships with them.

Wood Neblett Lay

Keefe, Bruyette, & Woods, Inc., Research Division

Yes. No, that's really helpful. I appreciate you going into that. And I guess, as you mentioned, the oversupply isn't necessarily a new issue. How has that impacted the loan pipeline and new multi-family projects? Is there less these days? Or is the underwriting shifted? Just curious on your thoughts.

Keith M. Donahoe

CEO, President & Director

Yes. We haven't yet modified our underwriting standards, but what that has done is it's made it more difficult to originate new multi-family projects. I do anticipate that to change some maybe towards the end of the year. But right now, the vast majority of the new opportunities we're seeing are coming in either the retail segment, the industrial warehouse segment. Those tend to be -- there's a lot of opportunity there, and those underwrite easier in today's market. In particular, the retail across the state of Texas is incredibly strong, and that goes to a continued population in-migration of people and historically a relatively limited new retail development throughout the state.

Operator

The next question comes from Matt Olney with Stephens.

Matthew Covington Olney

Stephens Inc., Research Division

Most of my questions have been addressed. I want to go back to deposit growth. I think you mentioned some seasonal headwinds for deposit growth in the first quarter. What about the remainder of the year? Do you expect the deposit growth to match the loan growth in that mid-single-digit number? Just any more color there?

Suni Davis

Chief Treasury Officer

I do expect a little bit of deposit growth, but I believe we are going to be funding at least half of the loan growth with wholesale.

Matthew Covington Olney*Stephens Inc., Research Division*

And is that comment like a full year kind of comment? Or is it kind of in the near term? What was the timing of that comment?

Suni Davis*Chief Treasury Officer*

So we're over budget right now with wholesale because of the loan growth has exceeded. So I would -- I expect deposits to pick up in Q2. We're going to have some more seasonality in Q2 with one particular customer. And then we are targeting to still meet our budgeted deposit growth, and we're putting in some, I would say, some looking closer at our strategy to ensure that, that happens.

Keith M. Donahoe*CEO, President & Director*

We are spending a lot of time talking about deposit strategy growth. So it's key to what we do, obviously, and we're getting everybody focused on it.

Matthew Covington Olney*Stephens Inc., Research Division*

Okay. Appreciate that. And then on the net interest margin this past quarter, the loan yields look exceptionally strong. I know you have some nice longer pricing tailwinds that you highlighted. Anything else unusual on that loan yield number this quarter that you reported this morning?

Keith M. Donahoe*CEO, President & Director*

We're still seeing fierce competition on quality real estate assets in particular. I do think what helped us in the first quarter where a number of the closings were in areas that we tend to see a little bit higher spread. Some of that is in our homebuilding book. Some of that is in our lot development. Both of those categories tend to get a little bit higher spread. I can't tell you that will continue throughout the rest of the year, but we do have -- one of the specialties that we have is homebuilding activity, and it's been good for us. I think we bank some of the top premier builders throughout the state, and we'll continue to do that. But generally speaking, you get a little bit better pricing on that.

Lot development activity is similar, although we're being very selective on adding new lot developer projects because it's very, very submarket specific today, especially in the Dallas/Fort Worth market. There are still pockets that are really -- they're pretty strong, but there are also -- you go 5 miles down the road and you don't want to touch a project. So it's very, very submarket specific. And again, these are developers that have deep equity pockets and long -- a lot of experience.

Matthew Covington Olney*Stephens Inc., Research Division*

Yes. Okay. And then just lastly, on the credit front, I think, Keith, you addressed some of the questions on multi-family, but we also got that paydown of that \$27 million restructured credit from the previous quarters that we've discussed on these calls. Just any more color on the resolution of that credit?

Keith M. Donahoe*CEO, President & Director*

The only thing that I'd call out is, especially given that we've moved -- we've migrated 4 other multi-family projects, that one was in the non-performing asset category, but we felt pretty good about it given the individual project dynamics and the fact that it got refinanced by a life company and they actually added an additional \$1 million in loan proceeds. It's an earn-out for them, but that gives you some indication of the type of projects that we typically finance, even though that one was in the NPA bucket, it really -- we were never overly concerned about it. We obviously watch them and pay attention to them.

But that is -- I think you'll be able to expect the same type of results coming out of these other 4 that we have been where we've downgraded, but we're not overly concerned with. Hopefully, that helps.

Operator

The next question comes from Brett Rabatin with StoneX Group.

Brett Rabatin

Just a follow-up on the Texas markets. And there's been a couple of deals in the market here in the past few quarters. And just wanted to see if you're being able to take advantage of disruption from some of those transactions or how you viewed disruption in the Texas markets? And then if M&A might be a strategy from here if you guys are out actively or aggressively looking for other partners? Or just any thoughts on your growth plans in the Texas markets?

Keith M. Donahoe

CEO, President & Director

Yes. In general, there has been disruption in the market, and it's both from a customer standpoint as well as an employee base. We are -- we've been having conversations with folks from an employment standpoint that could be beneficial to us, some of which are from larger banks than we are that would be helpful for us as we cross the \$10 billion mark. So we're going to be very opportunistic with that. And in addition, I didn't highlight this, but one of the C&I customers we picked up in the first quarter really came out of a displacement with another acquisition by an out-of-state organization. The customer had a strong desire to bank with a Texas-based bank. We have been calling on them. And so it made for a fairly easy transition for them. So yes, we're seeing it both from an employee standpoint and also customer opportunities.

Brett Rabatin

Okay. And then just any thoughts on M&A, your appetite, if so, what you're seeing out there?

Keith M. Donahoe

CEO, President & Director

Yes. So we're continuing to talk, and we are open to acquisitions, and that has always been our strategy. I do think that today, there's a higher probability of something occurring because just the market dynamics that are out there. So that will continue to be part of our strategy.

Operator

There are no further questions at this time. I will now turn the call back to Keith Donahoe, President and CEO, for closing remarks.

Keith M. Donahoe

CEO, President & Director

Right. Thank you, everyone, for joining us today. We appreciate your interest in Southside. And we're optimistic about 2026 and look forward to reporting second quarter earnings during our next call in July. Thank you.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

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