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Southside Bancshares, Inc. NYSE:SBSI

Earnings Call

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Call Participants

EXECUTIVES

Julie N. Shamburger
Chief Financial Officer

Keith M. Donahoe
CEO, President & Director

Lindsey Bailes
Senior VP & Investor Relations Officer

Suni Davis
Chief Treasury Officer

ANALYSTS

Brett Rabatin

Jordan Spencer Ghent
Stephens Inc., Research Division

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

Stephen Kendall Scouten
Piper Sandler & Co., Research Division

Presentation

Operator

Hello, everyone. Thank you for joining us and welcome to Southside Bancshares, Inc. Second Quarter Earnings Call. [Operator Instructions] I'll now hand the conference over to Lindsey Bailes, SVP Investor Relations. Lindsey, please go ahead.

Lindsey Bailes
Senior VP & Investor Relations Officer

Thank you, Jade. Good morning, everyone, and welcome to Southside Bancshares Second Quarter 2026 Earnings Call. A transcript of today's call will be posted on southside.com under Investor Relations.

During today's call and other disclosures and presentations, I'll remind you that forward-looking statements are subject to risk and uncertainties. Factors that could materially change our current forward-looking assumptions are described in our earnings release in 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 and Suni will end with comments on securities and funding. We will have a Q&A session following Suni's remarks.

I'll now turn the call over to Keith.

Keith M. Donahoe
CEO, President & Director

Thank you, Lindsey, and welcome to today's call. Second quarter results are highlighted by earnings per share of $0.90, a return on average assets of 1.23%, and a return on average tangible common equity of 16.09%. A $3.6 million increase in linked quarter net income was primarily driven by increased non-interest income and a decrease in non-interest expenses.

Second quarter funding costs benefited from reduced subordinated debt expense and a slight increase in non-interest-bearing deposits, but overall our funding costs increased due to a change in our funding mix and the maturity of $245 million in cash flow hedges during the first quarter. The combined effect contributed to a $355,000 decrease in net interest income during the second quarter. Higher funding costs combined with a slight drop in yield on our earning assets resulted in a lower net interest margin of 2.90%.

Strong new loan production was offset by return to elevated payoffs resulting in a relatively flat loan balance during the quarter. However, we continue to target mid-single digits for 2026 loan growth. Second quarter new loan production totaled $487 million compared to $431 million in the first quarter and $327 million in the fourth quarter of '25.

In the second quarter, new loan production of approximately $300 million funded during the quarter, with the unfunded portion expected to fund over the next six to nine quarters. Excluding regular amortization and line of credit activity, second quarter payoffs totaled $297 million compared to $113 million during the first quarter. Payoffs during the second quarter were heavily weighted towards CRE to include five multifamily loans accounting for just under half of our total payoffs. Our loan pipeline total is $1.47 billion today, up slightly from first quarter levels of approximately $1.3 billion.

Our won but not closed category remains healthy at just over $287 million. Pipeline remains well balanced with approximately 52% term loans and 48% construction or commercial lines of credit. This represents a change from first quarter pipeline, which reflected 44% term and 56% construction or commercial lines of credit. Since year-end '25, C&I loans, including owner-occupied real estate loans, increased 8.5% and now represents approximately 17% of our total loan portfolio. This is up from 16% at year-end 2025.

In addition, C&I opportunities represent approximately 22% of today's total pipeline, and that's down slightly from a 24% mix at the end of the first quarter. Classified assets declined $31 million, largely related to the previously mentioned CRE payoffs. We anticipate additional reductions in classified assets in the third quarter as several property owners are moving forward with open market sales and or refinance opportunities.

Other notable quarter -- second quarter items include a faster than expected build out of our Fort Worth wealth management team, which now includes three highly experienced and well-connected individuals. Additionally, we started construction on a new branch in the Celina-Prosper area, and for those non-Texans on the call, that's in the DFW market. We expect completion of that project in the second quarter of 2027. Overall, we had an excellent quarter, and the Texas markets we serve remain healthy and are anticipated to grow at a faster pace than the overall US economy for the foreseeable future.

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 second quarter earnings call. For the second quarter, we reported net income of $26.8 million, a linked quarter increase of $3.6 million, or 15.4%. Diluted earnings per share were $0.90 for the second quarter, up $0.12 per share linked quarter, also a 15.4% increase. Loans were flat compared to first quarter at $4.95 billion as of June 30th due to elevated payoffs in the second quarter compared to last quarter, as Keith mentioned.

The average rate of loans funded during the second quarter was approximately 6.1% compared to 6.3% during the first quarter. As of June 30th, our loans with oil and gas industry exposure were $76.1 million or 1.5% of total loans, an increase compared to $72.1 million linked quarter.

Non-performing assets remain low on a linked quarter basis at 0.11% of total assets at quarter end. Our allowance for credit losses decreased slightly to $49.3 million from $49.6 million on March 31st. Linked quarter, our allowance for loan losses as a percentage of total loans decreased one basis point to 0.92% at June 30th.

The securities portfolio decreased $86.3 million or 3% to $2.78 billion on June 30th when compared to $2.87 billion on March 31st. The decrease was driven by a decrease in purchases compared to the first quarter. As of June 30th, we had a net unrealized loss in the AFS securities portfolio of $9.8 million, a decrease of $6.5 million compared to $16.3 million last quarter. On June 30th, the unrealized gain on the fair value hedges on municipal and mortgage-backed securities was approximately $3.1 million compared to $2 million linked quarter.

As of June 30th, the duration of the securities portfolio -- the total securities portfolio was 7.2 years compared to 7.4 years at March 31st. And the duration of the AFS portfolio was 4.3 compared to 4.7 years on March 31st. At quarter end, our mix of loans and securities was 64% and 36% respectively, a very slight shift from 63% and 37% at March 31st.

Deposits decreased by $705.1 million, or 10.3% on a linked quarter basis. This was primarily driven by a decrease in broker deposits of $777.9 million, a decrease of public fund deposits of $20.7 million, partially offset by an increase in retail deposits of $93.5 million, which was driven by one commercial account that typically funds starting in second quarter and rolls out of the bank in the third quarter each year.

We remain well capitalized with strong capital ratios. Liquidity resources remain solid with $2 billion in liquidity lines available as of June 30th. We did not repurchase any common stock during the second quarter. However, we have over 700,000 remaining shares authorized for repurchase.

Our tax equivalent net interest margin was 2.90%, a decrease of 11 basis points on a linked quarter basis from 3.01% for the first quarter. Our tax equivalent net interest spread for the same period was 2.26%, a decrease of 12 basis points from 2.38%. The decrease in the net interest margin and the interest spread is primarily due to a lower overall yield on the earning assets and increased wholesale borrowings and the related higher funding cost.

For the three months ended June 30th, we had a decrease in net interest income of $355,000, or 0.6% compared to the linked quarter. Non-interest income increased $1.4 million or 11.2% for the linked quarter due to increases in BOLI income, deposit services income, trust fees, and to a lesser extent, income from swap fees and letter of credit fees included in other non-interest income. The increase in BOLI income was related to non-recurring death benefits recognized in the second quarter.

We continue to see positive activity in our trust and wealth management and brokerage groups. As Keith mentioned, we were fortunate to get our North Texas team in place earlier in the year than first anticipated. As a result, our trust fees were over our year-to-date budget by 8.4% and over year-to-date actual from the same time last year by $962,000, or 26.4%. We budgeted $9 million in trust fees for 2026, weighted slightly heavier in the back half of the year. We have also experienced higher year-to-date brokerage fees of $427,000 or 18.3% compared to the six months ended June 30, 2025. And brokerage fees, too, were over our year-to-date budget by 5.6%.

Non-interest expense was $38.7 million for the second quarter, a decrease of $1.9 million or 4.7% compared to the linked quarter. The decrease was largely driven by a decrease in salaries and employee benefits and a loss on the redemption of sub-debt recognized in the first quarter. Salary and employee benefits decreased due to additional stock compensation and a one-time retirement expense related to a new split dollar agreement both recorded in the first quarter.

Our fully taxable equivalent efficiency ratio decreased to 52.96% as of June 30th from 54.98% as of March 31st due to both the increase in non-interest income and the decrease in non-interest expense. Our budget indicates average non-interest expense of approximately $40.5 million for the remaining quarters. We recorded income tax expense of $5.7 million compared to $5 million in the prior quarter, an increase of $702,000. Our effective tax rate was 17.6% for the second quarter compared to 17.8% last quarter. And our current estimate for the 2026 annual effective tax rate is 17.7%.

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

Suni Davis
Chief Treasury Officer

Thank you, Julie. The mortgage-backed security purchases in the second quarter have coupons ranging from 5% to 5.5%, a duration of seven years and yield 5.4%. These were purchased at slight premiums. The corporate bonds or bank sub-debt purchased in Q2 were new issues of investment grade credits, yielding 6.25%. We expect to reinvest future cash flows from the securities portfolio into AFS, MBS, and potentially to a lesser extent into bank sub-debt while maintaining the balance of securities at approximately $2.7 billion to $2.8 billion. The principal cash flows we received during the quarter were $109.5 million, a decrease of $17.4 million linked quarter. Prepays declined through the quarter, starting at a record high in April and falling over 60% by June.

Securities amortization expense had a slight increase of $17,000 linked quarter. The spot rate on our CDs was 3.67% at quarter end, a decrease of 7 basis points linked quarter. The average rate was 3.69% during the second quarter, a 10 basis point decrease from Q1. CDs totaling $581.3 million with an average rate of 3.72% will reprice in the third quarter. We expect to retain the majority of these deposits, but believe there could be a near term need to increase the rates due to competition, especially on public funds CD. Additionally, $941.4 million in CDs with an average rate of 3.71% will reprice by year end.

Our public fund deposits decreased in the second quarter. There was movement between the 120-plus public entities we hold deposits for, but primarily the decrease was due to construction draws from bond funds. We have certain non-maturity deposit accounts with exception pricing. There were no interest rate adjustments to these accounts in Q2 other than on an individual basis. We have seen a higher cost on recently acquired deposit accounts versus existing account balances.

In the second quarter, new deposit accounts, excluding brokered and public funds, had an average rate of 2.25% versus existing accounts averaging 1.57%. However, excluding one large seasonal relationship, the rate on new deposits in June was 1.73%. Reciprocal deposits were $360.1 million at quarter end, a decrease of $3.9 million linked quarter. Many of these accounts are included in the exception pricing. Approximately 81% of reciprocal deposits are commercial and 19% are consumer.

Linked quarter, our wholesale funding remained at $1.4 billion, a slight decrease of $8 million. There was a significant shift in the sources of wholesale funding utilized during the second quarter as we repositioned broker deposits into FHLB advances and Fed discount window borrowings due primarily to rate but also due to desired terms. We utilized 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 will continue to utilize this source of short-term funding due to rate and prepayability.

Our cash flow hedge notional remains at $615 million with no maturities or additions in Q2. The next maturity is a $25 million notional maturing in November, currently at a rate of 4.63%. After this maturity and some amortization related to past unwinds, is fully expensed in October, the rate on our cash flow hedges will drop to approximately 3.57% assuming current spreads. We have a notional of $358.1 million in fair value swaps on municipal and MBS securities, including $100 million of MBS fair value swaps added in Q2. Approximately 38% of our loans have fixed rates and 62% of a floating rate with approximately 82% of our floating rate loans having floors.

We have $336.6 million in fixed rate loans that mature or reprice in the next 12 months. Approximately $160 million of these loans have rates at or below 4%. Of the loans at or below 4%, approximately $105.3 million reprice or mature by year-end and approximately $22.7 million reprice or mature in the third quarter. Should these loans reprice, we estimate their yield increasing approximately 200 basis points.
We are currently modeling Fed funds to be flat for the remainder of 2026 as forecasted in Moody's base case scenario. Should rates remain flat or increase by year end, we could expect a positive impact on net interest income since we are asset sensitive. We're modeling a beta of 35% on non-maturity interest-bearing deposits in rates up.
Thank you for joining us today. This concludes our comments and we will now open the line for your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Brett Rabatin from StoneX Group.

Brett Rabatin

I wanted to start off on credit, and you've lowered the classified assets linked quarter, and I know you've got some projects in Austin. Can you maybe just walk through things like you're being able to have good success with those four or five credits. Just wanted to hear an update on them and if you still think those all work out and anything else you're seeing on the credit side.

Keith M. Donahoe
CEO, President & Director

Yes, thank you for that question. So we have spent a lot of time monitoring our CRE book and we feel really confident that we've got things moving in the right direction. We don't anticipate any losses inside of those inside of those -- inside of that portfolio. A large amount of that or multifamily properties that were construction loans that have now moved into lease-up phase. And you know that story continues where their lease up was happening. You know they're increasing occupancy but at lower rental rates. Many of those properties that we have are in the process of -- we've got customers that are actively selling or moving into refinanced opportunities. There's still liquidity in the market for both of those right now.

We do anticipate some additional payoffs in third quarter that will continue to benefit our classified asset bucket. So I don't know if that helps, but I can dig in a little bit more if you need.

Brett Rabatin

No, that's helpful, Keith. And then wanted just to -- you gave the expense guide for the back half of the year. It's nice to see the strength in fees kind of across the board. Is that level what we should expect from here or does it grow further with the wealth management adds in Fort Worth? Any thoughts on the fees from here?

Keith M. Donahoe
CEO, President & Director

You want to?

Julie N. Shamburger
Chief Financial Officer

Yes, sure. All right. With respect to the ones I really called out, the trust fees, you know, like I said, their budget -- we budgeted $9 million. And obviously the budget was done early in the year before we knew the timeline of when this Fort Worth North Texas team would be built out. It happened before we could have even dreamt of it happening. So it has resulted in some increased fees earlier in the year. I think if we continue the pace we're at, I think we'll -- I think there's a strong chance that we will beat the budget that we've put in place, the $9 million for the year. The budget for six months was $4.250 million, I didn't call that out specifically. And then it was weighted a little heavier in the back at $4,750,000. But since we were over 8%, I think, what did I say, 8.6%, I think we can. I hate to promise, but we're optimistic that we will continue that trajectory for the rest of the year with a new team in place and what have you.

And then on the brokerage side, obviously that's very market driven. We did budget - We're over budget there as well. That budget's pretty much split evenly across the 12 months for us, which is not necessarily important to you, but we're 5.5% over that budget target at year-to-date. And so we think providing the market cooperates that we will continue to see some nice fees there.

I think as far as deposit services go, those have some seasonality to them. This quarter, it was more driven by debit card income, and that was kind of made up of some increase in volume and some additional. We received about $160,000 of some refunds on some of our debit card expense. We do expect our debit card expense to be more in line with that rate, and those are netted in our reporting and that's GAAP accounting.

So it's really hard to say on deposit services, you know, there is the overdraft income and NSF and that has some seasonality to it. That part was up a little bit for the quarter, about $60,000. So that one's a little harder for me to predict for you. And if you look at the five quarters in the earnings release, you can see they are a little bit more unpredictable. I hope that helps, Brett, on the fees.

Brett Rabatin

Yes. Yes. That's very helpful.

Operator

Your next question comes from the line of Michael Rose from Raymond James.

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

Maybe I'll just start on the loan side. I know you guys kind of reiterated the mid-single-digit growth guide. Just as it relates to the payoffs this quarter, is that kind of a peak? Or how should payoffs kind of trend over the next couple of quarters? Just trying to balance the production versus the, the payoffs as we think about the next couple of quarters.

Keith M. Donahoe
CEO, President & Director

Yes, good question, Michael. It may not be a peak. Just looking forward, and we don't know when we get into our pipeline and part of our pipeline are projected payoffs, we're pretty good at about 60 days out, 90 days out it gets a little bit more fuzzy, but we have a fair amount of loans gearing up to pay off in the third quarter. So I hesitate to say we saw a peak. On the flip side, loan production has been really strong and I tried to show that from fourth quarter '25, first quarter '26 and this quarter, we've been elevating that production level. We still feel really good that we're going to be able to do that the rest of the year.

In addition, I do anticipate some of the construction loans, the newer construction loans that we put on the books in '25, that they're going to start funding up at some point. So, and one good thing about those fundings is those tend to be our higher spread loans. So I'm looking forward to seeing some of that hit the books. Some of that could happen in the third quarter, which may alleviate some of the pressure.

So hopefully that helps.

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

Yes, it does. Very helpful, Keith. Maybe just as a follow-up separate topic, just as it relates to the margin pressure this quarter, how much of that was really driven by some of the funding exchanges versus some of the more structural pressure on earning asset yields. And then just separately, I know, I think you mentioned $105 million or so of fixed rate loans that are going to reprice by year end. Can you just kind of talk about the interplay there and kind of margin dynamics as we move over the next couple quarters?

Keith M. Donahoe
CEO, President & Director

Yes, the funding pressure was a large contributor to the narrowed NIM and margin. We are -- I'm looking forward to some of those loans repricing so we can hopefully take some of the pressure off the funding side. But we did -- also in the first quarter, we did have a couple of loan revenue non-recurring items. One was some purchase accretion on one particular loan that kind of elevated, if you will, and we also had an exit fee on a loan that was paid off in the first quarter that contributed.

Julie N. Shamburger

Chief Financial Officer

Only one that had been restructured. And I think we alluded to that fee last quarter. Yes.

Keith M. Donahoe
CEO, President & Director

So that's that was a little bit of it so there was -- a it was both on the revenue side as well as the funding side that kind of pushed together. Now on -- I will tell you just to give you some color on new loan origination. So we are focused on both term loans that we're going to be fully funded at closing, as well as construction loans. Term loan when you're getting into the market to the high quality loans that we're looking for, those spreads have dropped significantly. We're seeing -- we've lost deals at 185 over SOFR and below. We won't play in that game. But we have been competitive and winning somewhere as low as 190, 195. But that's where the market is today. And we are being selective when we go that skinny.

So there is some downward pressure. We saw a little bit of decline in the loan yields in the second quarter. And some of that is because we did close a lot, a fair amount in the first six months of the year of this term debt on some thinner margins.

Operator

Your next question comes from the line of Jordan Ghent from Stephens.

Jordan Spencer Ghent
Stephens Inc., Research Division

Thanks for all the color you provided. It's been really helpful. I just wanted to follow up on the margin and more particularly the cost of funds. given with all the funding mix, where do you guys see cost of funds going for the remainder of the year?

Suni Davis
Chief Treasury Officer

Well, of course, deposit competition is pretty intense, and we're seeing it really heavily on our public fund CDs for sure. So I feel like our CDs, some of those are going to reprice up a little. In fact, we may be adjusting our rates. We've been internally talking about that. We had some pressure related to our swap funding. As Keith mentioned in his comments, we had the swap mature in Q1. So that funding had to be replaced and it, I mean, sorry, the funding had to be kept in place. And so that repriced up by 105 or so basis points. We also saw the spread on our swap funding increase. And so we pay a fixed rate to our counterparty and then they pay us floating and we have the rate on our borrowing. Well, floating rate paid to us based on SOFR compared to our borrowing, the spread between the two of those has tripled since year end. So that was a driver on some of our wholesale expense, but also just moving, we moved out of brokered and into FHLB and discount window because those sources became cheaper.

So brokered was cheaper than both and now brokered is more expensive than both. So we -- I don't see that changing because that's been in place for a few months now. And then really, I mean, we've got some initiatives to try to grow some commercial deposits, and we're looking at our online platform for ease and efficiency to our customers there. So I mean we have a couple of ideas in the works to help generate some deposits.

Keith M. Donahoe
CEO, President & Director

I know your question was on the funding side, but one thing to highlight, and I know, I think Suni mentioned this, but we've made a strategic change in our loan portfolio. And right now we've got about 62% of our loans are on a floating rate. So if there is an increase, upward movement by the Fed, that will be beneficial to us. And in that event, we'll reprice those loans faster than what we've done in the past.

Jordan Spencer Ghent
Stephens Inc., Research Division

Got it. And then, so I guess just taking that together. It kind of sounds like there's going to be some continued margin pressure going forward, just given absent of any rate hikes. Is that kind of how we should understand it?

Keith M. Donahoe
CEO, President & Director

That's a fair way to look at it right now.

Jordan Spencer Ghent
Stephens Inc., Research Division

Okay, perfect. And then just one other question going -- switching to capital. So you guys haven't been active with buybacks in the first half of the year and capital levels have been building. What's your appetite for repurchases in the back half of the year and then maybe can you talk more about kind of your preferences for capital deployment?

Keith M. Donahoe
CEO, President & Director

Yes, in the big picture, yes, share buybacks are still part of the plan. We're also in the market looking for acquisitions. So to some extent, historically on our share buybacks, we've kind of dipped into that market when we see a decline in the stock that we don't think is reasonable. That's one reason why we haven't been actively engaged in that in the second quarter is because we had a nice run on the stock value or price. That doesn't mean that we won't step into that market, but we are anticipating having some opportunities in the acquisition space. So that's another reason why our capital levels remain high.

Jordan Spencer Ghent
Stephens Inc., Research Division

Got it. And then could you maybe just remind us kind of asset size and kind of as far as a target for M&A that you guys would be looking for? And I'm assuming if it would be kind of like in market or out of market for you guys.

Keith M. Donahoe
CEO, President & Director

Yes, we're still moving along the same strategy. Size-wise, $1 billion is comfortable for us. We could stretch a little bit on a billion dollars. And we've got an ability to shrink our balance sheet to some extent. If it's not a billion dollar asset, then it's going to be something of more size in the $3 billion to $4 billion range. That would be something that would be of interest to, because that gets us over the $10 billion mark with some little bit of scale. So we're in an awkward space, but there are plenty, there's more opportunities for $1 billion to $1.3 billion banks than there are for 3 to 4. So I'm actively spending time and open to discussions.

Operator

Your next question comes from the line of Stephen Scouten from Piper.

Stephen Kendall Scouten
Piper Sandler & Co., Research Division

Just maybe kind of following up on that conversation around M&A, what do you feel like the dynamics are in terms of seller -- potential seller appetite, pricing? Like, do you feel like that's reasonable? Has there been any sort of a push for people to think about needing to take advantage of this window of kind of accommodative regulatory environment, strong valuations, that sort of thing? Or do people still want the price they want, no matter what?

Keith M. Donahoe
CEO, President & Director

I think it's a mixed bag, to be honest with you. The window of opportunity, everybody talks about it. I think there's a little bit of pressure but when you actually get into the discussions, people are still wanting the price that they want. And that's, I guess when you build a bank and it's been in your family for a long time, or you've been a part of that bank for a long time on private aspect, it's hard sometimes for them to get their head around exactly what the value of that organization really is. So when you get into those discussions, that's when you start to realize that there's still some hesitancy on meeting the bid-ask in those negotiations.

You know, somebody mentioned geography or kind of just to make sure I'm clear, we're not going to go necessarily outside of our market to make an acquisition. We're certainly not going to go outside of the state of Texas. But if we're filling in a geography, that is something of interest to me and to us. So we've got plenty of room to grow in Dallas and Houston and Austin. But I'm also not forgetting that we have a very strong presence in East Texas and Southeast Texas, and there are some opportunities in those markets.

Stephen Kendall Scouten
Piper Sandler & Co., Research Division

Got it. Okay. Yes, that's helpful. I guess from a balance sheet perspective, one, I'm curious why -- I think you said security should stay kind of flat-ish in the $2.7 billion, $2.8 billion range. I'm curious, given the pressure on funding costs, and it sounds like even incremental CD costs and repricing, why you wouldn't think more about letting that book run down and taking those cash flows and trying to fund loan growth through those cash flows? Am I hearing that wrong? Or can you help me think about why that wouldn't be the case?

Keith M. Donahoe
CEO, President & Director

Well, I think the elevated loan payoffs has a lot to do with it right now. I mean, we are -- when that slows down, because the payoffs will slow down, I think you will see us apply more of the cash flows from the securities book into the loan growth. But right now, it is something we talked about that from a budgeting standpoint we're trying to keep that interest income up on the securities book as much as we can right now while we're experiencing such high payoffs on the loan side.

Suni Davis
Chief Treasury Officer

And what we're looking at is like right now 6% coupon MBS that are yielding in the 5.75% range. So for the asset quality...

Keith M. Donahoe
CEO, President & Director

Not that different from loan yields. So yes.

Suni Davis
Chief Treasury Officer

Right.

Keith M. Donahoe
CEO, President & Director

That tells you how tight loan spreads have become. On quality deals, now we could -- and we're not going to do this, but we could go find more yield in the loan book. In my opinion, you take on unnecessary risk at that point. So the loans we're pricing in the narrow spread are high quality and everybody's in the market trying to get them.

Stephen Kendall Scouten
Piper Sandler & Co., Research Division

Yes. Yes. That makes sense. And then just, I guess, lastly for me and apologies if I miss this, but how are you thinking about just overall NII in spite of -- I mean, it was, I guess, down slightly on an FTE basis, quarter over quarter. It sounds like we might face additional NIM pressures. I know you're thinking loan growth should pick up. It sounds like in the back half, still hit that mid-single digits. But how do you think about NII growth versus kind of all those dynamics.

Keith M. Donahoe
CEO, President & Director

Yes, I think we'll continue to see a little bit of net interest income growth between now and the end of the year. Some of that obviously will become a lot better if there's a move by the Fed, but yes, it's our intention to continue to grow that, but we are under some pressure from the funding side.

Operator

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

Keith M. Donahoe
CEO, President & Director

Thank you, everyone, for joining us today. We appreciate your interest in Southside Bancshares and the opportunity to answer your questions. We're optimistic about 2026 and look forward to our third quarter earnings call sometime in October. Thank you.

Operator
This concludes today's call. You may now disconnect.