(CIVB) Civista Bancshares, Inc., Year-End 2023 Earnings Call
Thursday, February 8, 2024, 1:00 PM Eastern Time

Officers and Speakers
Dennis Shaffer; President and Chief Executive Officer
Rich Dutton; Senior Vice President and Chief Operating Officer
Todd Michel; Senior Vice President
Chuck Parcher; Senior Vice President and Chief Lending Officer
Mike Mulford; Chief Credit Officer

Analysts
Nick Cucharale; Hovde Group
Terry McEvoy; Stephens
Unknown Analyst; KBW
Manuel Navas; D.A. Davidson
Daniel Cardenas; Janney Montgomery Scott

Presentation

Operator: Before we begin, I would like to remind you that this conference call may contain forward-looking statements with respect to the future performance and financial condition of Civista Bancshares, Inc. that involves risks and uncertainties. Various factors could cause actual results to be materially different from any future results expressed or implied by such forward-looking statements. These factors are discussed in the company's SEC filings, which are available on the company's website.

The company disclaims any obligation to update any forward-looking statements made during the call. Additionally, management may refer to non-GAAP measures, which are intended to supplement but not substitute the most directly comparable GAAP measures. The press release, also available on the company's website, contains the financial and other quantitative information to be discussed today as well as the reconciliation of the GAAP to non-GAAP measures.

This call will be recorded and made available on Civista Bancshares website at www.civb.com. At the conclusion of Mr. Shaffer's remarks, he and the Civista management team will take any questions you may have.

Now I will turn the call over to Mr. Shaffer.

Dennis Shaffer: Good afternoon. This is Dennis Shaffer, President and CEO of Civista Bancshares, Inc. And I would like to thank you for joining us for our fourth quarter 2023 earnings call. I am joined today by Rich Dutton, SVP of the company and Chief Operating Officer of the bank; and Chuck Parcher, SVP of the company and Chief Lending Officer of the bank; and other members of our executive team.

This morning, we reported net income for the fourth quarter of $9.7 million, or $0.62 per diluted share, which represents a 20.5% decrease from our fourth quarter in 2022. Our full year net

income represented record earnings of $43 million, or $2.73 per diluted share, which represents a 9% increase over our 2022 performance. Our fourth quarter and year-to-date performance was set up by continued strong growth in our loan and lease portfolio, excluding the participation adjustment, which grew at an annualized rate of 15.5% for the quarter and 12.4% year-to-date. We added new and renewed commercial loans at a yield of 7.94% during the quarter and new equipment finance loans and leases at a yield of 9.80% during the quarter.

Demand came from all areas of our footprint as we continued to strengthen market share in most of our markets and add new customers in our urban markets. While we do not anticipate continuing to grow at this pace, we do anticipate continued growth at a single-digit pace in 2024.

Net interest income declined compared to our linked quarter but increased 13.9% for the year in comparison to 2022. Competition for deposits is becoming a little bit more rational, but is still very intense. This led to a five-basis point increase in our cost of deposits excluding brokered to 72 basis points for the quarter.

During the quarter, we began a measured approach to decreasing rates paid on some of our higher-tier demand deposit accounts and select CDs. Excluding broker and tax-related deposit accounts, our deposit balances were consistent compared to the linked quarter. All in, our funding cost increased by 47 basis points from our linked quarter to 2.19% as we funded much of our growth with wholesale funding.

In the face of funding pressures, our margin compressed at the same pace as it did during the previous quarter, coming in at 3.44% for the quarter and 3.7% year-to-date. Our yield on earning assets increased by 18 basis points during the quarter to 5.52% and was 5.35% year-to-date. However, the cost of funding our balance sheet increased by 47 basis points during the quarter to 2.19% and was 1.72% year-to-date.

Noninterest income was up 8.6% for the linked quarter, primarily on higher swap fee income. And it was up 27.8% year-to-date primarily on lease revenues. While we continue to complete our integration of our leasing division, we view them as a significant contributor to our noninterest income as we move into 2024 and beyond.

Our tangible book value grew to $15.10, compared to $12.60 at September 30 and $12.61 at December 31, 2022. And our TCE ratio increased to 6.36% from 5.49% at September 30 and 5.66% at December 31, 2022. This growth came from continued solid core earnings and a marked reduction in unrealized losses related to our securities portfolio. We will continue to focus on growing our TCE ratio during 2024.

Last week, we announced a quarterly dividend of $0.16 per share. This is consistent with our prior quarter dividend and represents a 23% dividend payout ratio based on our 2023 earnings.

Our efficiency ratio for the quarter was 64.1%, compared to 66.5% for the linked quarter and 65.2% year-to-date. However, if we were to back out the depreciation expense related to our operating leases, our efficiency ratio would have been 59.8% for the quarter and 61.3% year-to-date.

Our return on average assets was 1.02% for the quarter, compared to 1.12% for our linked quarter. And our return on average equity was 11.34% for the quarter, compared to 11.83% for the linked quarter. Year-to-date, our return on assets was 1.16%. And our return on equity was 12.5%.

During the quarter, noninterest income increased $698,000, or 8.6% in comparison to the linked quarter; and decreased $1.2 million, or 12.3% in comparison to the prior year fourth quarter. The primary drivers of the increase from our linked quarter were $454,000 in swap fees as borrowers took advantage of the inverted interest rate curve to lock in what they viewed as favorable rates. We also earn an annual $225,000 bonus from our debit brand partner that contributed to the increase.

The primary driver for the decrease from the prior year's quarter was an $874,000 decline in lease revenue in residuals as the higher interest rate environment put pressure on our leasing division's production. In addition, we recorded $345,000 less in gains on the sale of loans and leases originated by our leasing division as our buyers paid lower premiums as their balance sheets became less liquid.

Year-to-date, noninterest income increased $8.1 million, or 27.8% in comparison to the prior year. The primary drivers of this increase were $5.3 million in lease revenue and residual fees. This was a result of a full year's income from our leasing division, which we acquired in October 2022. These fees are primarily made up of operating lease payments and gains on sale of equipment at the end of the lease term. Also included in other noninterest income was a $1.5 million bonus we received for entering into a new debit brand agreement during the first quarter and $1.2 million in interim rent payments generated by our leasing division that we did not have in the prior year.

Wealth management revenues for the quarter were consistent with the linked quarter and declined slightly year-to-date compared to the prior year. While we anticipate that market uncertainty will continue for some time, we continue to view the expansion of these services across our footprint as an opportunity to diversify and grow noninterest income.

Noninterest expense for the quarter of $25.3 million represents a 5.4% decline from our linked quarter as we experienced improvement in nearly every line item of noninterest expense. Year-to-date, noninterest expense increased $17.1 million, or 18.9% over the prior year. Much of this increase is attributable to growth from our acquisitions of Comunibanc and VFG in the third and fourth quarters of 2022.

Our compensation expense increased $7.2 million, or 14.2% over the prior year. The bulk of increase is due to $5.2 million in additional salaries, commissions and benefits attributable to new employees from last year's acquisition. The balance of this increase is attributable to normal benefit and merit increases.

While we do have an additional seven branch offices as a result of our Comunibanc acquisition, the $6.7 million increase in occupancy and equipment expense was primarily due to an increase

in depreciation expense on equipment related to our new leasing division. Equipment under an operating lease is owned and depreciated by Civista until the end of the lease term. Depreciation related to operating leases was $6.5 million year-to-date.

The increase in other noninterest expense was primarily due to a $515,000 provision for credit losses on unfunded loan commitments. That was a new expense category resulting from our adoption of CECL in January. Like many in the industry, we experienced an increase of $400,000 in bad check losses year-to-date.

Turning to the balance sheet. Year-to-date, our total loans excluding the participation adjustment grew by $315.1 million, which includes $42.1 million of loans and leases originated by the leasing division. This represents annualized growth rate of 12.4%.

During our last call, I noted that a number of banks in our markets had curtailed their lending efforts, which created some opportunities for us to expand existing relationships and enter into some new relationships. As we move into 2024, we have noticed that the larger regional banks in our markets are becoming more active. So we do not expect the rate of loan growth we experienced during the quarter to continue into 2024.

While we experienced increases in nearly every loan category, our most significant increases were in C&I, nonowner occupied CRE loans, residential real estate loans and lease financing receivables. The loans we are originating are virtually all adjustable rate loans and leases and all have maturities of five years or less.

Loans secured by office buildings make up about 5.2% of our total portfolio. These loans are not secured by high-rise office buildings. Rather, they are predominantly secured by single or two-story offices located outside of central business [districts].

Our CRE portfolio remains well diversified with no concentration risk by property type or by geography. Along with year-to-date loan production, our undrawn construction lines were $237.3 million at December 31. We anticipate loan growth to moderate to a low single-digit rate in 2024.

On the funding side, total deposits increased $365 million or 13.9% since the beginning of the year. However, if we were back out noncore tax program and brokered deposits, our deposit balances declined 5.8% year-to-date. Our core deposit balances remained consistent from the linked quarter. Our deposit base is what we would term as fairly granular with our average deposit account, excluding CDs, approximately $25,000.

Noninterest-bearing demand accounts continue to be a focus. Excluding cash-related and brokered deposits, noninterest-bearing deposits made up 33.2% of the remaining total deposits at December 31. With respect to FDIC-insured deposits, excluding Civista's own deposit accounts and those related to the tax program, 14.1%, or $441.4 million of our deposits were in excess of the FDIC limits at December 31. Our cash and unpledged securities at December 31 were $462.5 million, which more than covered these uninsured deposits.

Other than the $336.5 million of public funds with various municipalities across our footprint, we had no concentration in deposits at December 31. At December 31, our loan-to-deposit ratio, excluding deposits related to our tax refund processing program, was 97.6%. Our commercial lenders, our treasury management officers and private bankers are having success requesting additional deposits and compensating balances from our commercial customers. We will continue to be disciplined in how we price our deposits. And we will take advantage of brokered and wholesale funding sources when we think it makes sense.

We believe our low cost to profit franchise is one of Civista's most valuable characteristics, contributing significantly to our strong net interest margin and overall profitability. At December 31, all of our $620.4 million in securities were classified as available for sale. At year-end, the unrealized losses associated with our security portfolio improved from $93.1 million at September 30 to $54.5 million.

At year-end, our tangible common equity ratio had improved to 6.36%, which was an 87-basis point improvement over September 30. And our Tier 1 leverage ratio at year-end was 8.75%, which is well above what is deemed well capitalized for regulatory purposes. Civista's strong earnings continue to create capital. And our overall goal remains to maintain adequate capital to support organic growth and potential acquisitions.

Although we did not repurchase any shares during the quarter, we continue to believe our stock is a value. During the year, we repurchased 84,230 shares of common stock for $1.5 million for an average price of $17.77 per share. All of our 2023 repurchase activity occurred during the third quarter. We have an authorization of approximately $12 million remaining on our current repurchase program.

While our capital levels remain strong, we recognize our tangible common equity ratio [screen] low. We have stated publicly that we would like to rebuild our TCE ratio to active between 7% and 7.5%. To that end, we will continue to focus on earnings and will balance any repurchases and the payment of dividends with building capital to support growth.

Despite the uncertainties associated with the economy and the expense pressures on our borrower space, our credit quality remains strong and our credit metrics remain stable. We did make a $2.3 million provision during the quarter, which was primarily attributable to our strong loan and lease growth. Our ratio of allowance for loan losses to loans improved from 1.08% at December 31, 2022 to 1.30% at December 31, reflecting growth in our adoption of CECL during the first quarter. In addition, our allowance for loan losses to nonperforming loans declined slightly from 261.45% at December 31, 2022 to 245.66% at December 31, 2023.

As I conclude my remarks, I would like to thank our entire Civista team. 2023 was another challenging year. And once again, they showed me what it means to be a part of a team that cares about our customers, our communities, our shareholders and, most importantly, each other. I could not be more proud. Although our margin continues to be under pressure, we continue to generate strong earnings. And our margin remains relatively strong.

2023 was a year of exceptional organic loan growth. And while we do not anticipate growth at a similar piece in 2024, our markets do remain vibrant. And we expect to grow at a mid-single-digit pace. We will continue to examine and stress our portfolios. But so far, we have seen no material deterioration in our credit quality.

In 2024, our focus will continue to be on creating shareholder value. For 2023, in a tough interest rate environment, our earnings per share increased 5%, which we believe is indicative of our disciplined approach to managing the company.

Thank you for your attention this afternoon. And now we'll be happy to address any questions you may have.

Questions and Answers

Operator: [Operator Instructions] Your first question comes from Nick Cucharale with Hovde.

Nick Cucharale: Just to start on the net interest margin. Can you help us quantify the near-term outlook and then longer-term how your balance sheet reacts once the Fed starts cutting rates?

Rich Dutton: Nick, this is Rich. And the way our model projects it rates down and rates up -- it doesn't move much. I mean, I guess we've hit that trough. The model says that for each 25-basis point cut in rate, we would anticipate about a two-basis point contraction in our margin. And again, I guess our model has got loaded in the second half of the year. And I think we use the Blue Chip forecast to run that model. And that's three rate cuts. I think May -- I'm looking at Todd, May --

Todd Michel: Q2, Q3 and Q4.

Rich Dutton: There you go. Q2, Q3 -- that's a better answer, Nick. I will say, just to give a little color, we did have a bucket of brokered CDs, $150 million-ish of CDs, that matured or came due in December. The cost of those CDs was about 530. We replaced those in December with a like amount, $150 million of CDs, at a cost of 508. So we picked up about 22 basis points there.

We've got another similar tranche or group of about $150 million of CDs that will roll off in March. The cost on those was 540. And if we were going to replace those today with one-year brokered CDs, it'd be at 5%. So we'd pick up another 40 basis points there. So if nothing changes and we didn't grow much those are two real positive, I think, impacts on our margin.

Dennis Shaffer: Well, and then new loans are going on the books at higher rates. Existing loans are repricing at higher rates. And we have started to inch down some deposits, some of our CD specials, some of our just general money market rates and stuff. And we saw no real impact from that. And we started that, oh, sometime mid-November. And we've done a couple of moves there, just small things to see if there would be any impact and so far have not seen any real impact. So we'll continue to watch that. But I do think there's going to be some opportunity there.

Nick Cucharale: Okay. Great. And then in that same vein, you saw the opportunity on the loan side. And to your point, you utilized the brokered CDs. At the end of the year, this was pretty high historically relative to where you are, close to 17% of deposits. So your assumption is that you replace that with core funding over the course of the year and drive that down? Or are you at a peak in terms of brokered funding?

Rich Dutton: Yes. I mean, I doubt that we're going to replace 100% of it. But certainly, we've got a number of initiatives in place transition away from brokered or noncore funding and back to something more in line with what we've done historically.

Nick Cucharale: Got it. Just a different question. Just on the leasing business, specifically on the gain on sale line, I appreciate your commentary on lower production due to the rate environment and lower premiums with your partners given liquidity constraints. How should we think about the pipeline there? And usually, the fourth quarter, obviously, you get a step-up for tax reasons with your borrowers there. Just overall your thoughts there.

Dennis Shaffer: Well, we do think we're going to be able to improve on what we did in '23 from our leasing group. I think rates dictate a lot of what's going on. Fourth quarter is usually their strong this quarter. So first quarter will probably be a little bit softer than what it was in that fourth quarter.

But we spent a lot of time -- they were an unregulated company, and we're a regulated company. And we spend a lot of time with consultants in there, looking at their IT systems, looking at just compliance training, things like that that I think took away from sales. So we do expect to make up some additional income in '24 that we didn't have in '23.

Chuck Parcher: Nick, this is Chuck. I would say from a budgeting perspective, we budgeted for them to be a little bit more production than last year, but nothing that would really move the needle.

Nick Cucharale: Very helpful. And then just my last question on expenses. Your thoughts on the run rate going forward? It looks like a little bit of volatility in this quarter relative to what you're expecting.

Rich Dutton: Well, and Nick, we've always trued up our accruals at the end of the year. And probably -- I don't know if sloppy is a technical term, but maybe we got a little sloppy and had a little more to true up at the end of the year than what we have traditionally done. I think we guided you guys to $27.5 million for the quarter, and we ended up coming in at $25.3 million.

When we normalize everything, what we're guiding to for the first quarter is about $28.4 million of expense. And you'll recall that our merit increases all go into effect in the second quarter. So there will be a little bit of a jump there. Maybe $28.7 million is what we're looking at. And that would be a decent run rate, then, for the rest of the year.

Operator: Your next question comes from Terry McEvoy with Stephens.

Terry McEvoy: Maybe just to start off, the New York Community Bank that's been in the headlines this past week, are you getting questions, concerns from any of your clients on your commercial real estate loans or your liquidity position?

Dennis Shaffer: We really have not gotten hardly any. I mean, we've gotten no calls that I know of, unlike when the banks failed in March. There was quite a few calls and stuff, but we've heard nothing so far with the New York Community Bank struggles and stuff.

Terry McEvoy: That's good to hear. Next question. As you commented in the press release, you've had really good growth in multifamily nonowner-occupied loans. Could you just maybe talk about what your developers are seeing in the markets in terms of rates, vacancy trends? And are you being a bit more cautious at all on your multifamily underwriting given those conditions?

Chuck Parcher: Yes. Terry, this is Chuck. I would say yes, we're being a little bit more cautious for sure and looking at it. But we've got some -- the markets that we're really strong in, Cleveland, Columbus and Cincinnati, and predominantly Columbus, they can't build units fast enough. And I would tell you that probably 80% of the deals that we're doing build up on as far as on a multifamily, the rental rates are coming in higher than what they were projected to be in the appraisal. So those markets are really, really strong still in multifamily.

Dennis Shaffer: And I would say, Terry, too, I mean, as far as are we being a little bit more cautious, I think the interest rate environment is driving some of that because a lot of these deals, you have to have more equity into the deals to make the numbers work. And so that's putting, I think, your smaller developers or even some of the midsize developers are going to the sidelines. So the guys that are doing the deals are your pretty well-heeled borrowers because they have that extra cash to put into the deals. We're a lot of times seeing 35% or so going into those multifamily deals to make them work.

Terry McEvoy: Great. Thanks for that. And maybe one last one. When you put together the 2024 budget, any type of range you're thinking about for that lease revenue and residual income line? I know you talked about it earlier, but it is a growing part of your fee income stream. And just maybe get some insight in terms of how you're thinking for the full year.

Rich Dutton: You know what, Terry? If I gave you a number, I'd be kind of fudging. Let me look, and I'll get you a good number. And I'll get it out to all of you guys, okay? I don't have that in front of me.

Operator: Your next question comes from Michael Perito with KBW.

Unknown Analyst: This is Mike's associate, Andrew, filling in. Just a quick one here for me first. I was just wondering, was there any accretion impact on the margin this quarter? And if so, what would the core NIM have looked like for 4Q?

Rich Dutton: So it was 6 basis points, which has been pretty consistent, I think, for the last number of quarters in terms of accretion impact. So take 6 basis points off of it, and that's what it

would have been. And I guess going forward, I don't see it changing over the next four quarters, anyway.

Unknown Analyst: Great. Thanks for that. And then I appreciate all the color on the capital front. Obviously, the focus here is to push back up towards that 7%, 7.5% TCE. Broadly, with the repurchase expiring here in May, I know you said you're going to be opportunistic. But maybe just a high-level comment on M&A. I know that's not the focus right now, but have conversations started to return to the market here? And yes, just any broad thoughts there would be great.

Dennis Shaffer: I still think it's fairly quiet on the M&A front. I mean, everybody is talking. And there's a few banks that are struggling that I think would like to partner up. But they're just tough deals to do right now. The marks are so heavy. And just to get done and where banks are -- where we're trading at and other banks are trading at, I think those deals are hard to do. So for right now, we are laser-focused just trying to grow our capital to increase that TCE ratio because I don't see a lot happening over this first half of the year. So we're going to be laser-focused in getting that TCE ratio back in line.

Operator: [Operator Instructions] Your next question comes from Manuel Navas with D.A. Davidson.

Manuel Navas: Do you have an overall guide for fees? I guess it's in part driven by VFG trends. But just do you have an overall expectation for fees that include them, include that business?

Rich Dutton: I'm looking. I guess what we're seeing for the line item, that was lease revenue and residuals. So that would be the operating piece of it. So that looks like it had a run rate of about $2 million a quarter. And I think that's maybe a little bit better than what we did this year.

Manuel Navas: Okay. And then the other pieces grow with industry trends?

Rich Dutton: They do. And they're buried in interest income. I mean, they're not -- you know what I mean? And then I guess other, as far as the selling equipment at the end of a lease and whatnot, that's buried in --

Dennis Shaffer: You're just talking leasing.

Rich Dutton: Right, just talking leasing.

Dennis Shaffer: He's just talking leasing.

Rich Dutton: Right.

Dennis Shaffer: Is this question overall fees or just leasing?

Manuel Navas: My question is overall fees. But I appreciate the lease itself.

Rich Dutton: Okay. I'm sorry. I'm sorry. I had to leasing on my mind. Go ahead.

Dennis Shaffer: So I was going to say we probably will do fairly close to what we did this year in fees. We have overdraft fees that are -- we had some overdraft reform. And we lose a little bit of overdraft income there. But we do think we're, at least right now with the yield curve so inverted, that we can pick up some swap fees.

If rates move down even slightly, I think Chuck feels we've got some portfolio residential loans that we did put on the books that we probably can flip over into saleable loans, which also frees up a little liquidity there. So I think our guide is probably fairly close to that $37-or-so million of noninterest income that we did in '23.

Rich Dutton: Mr. Shaffer usually shoots a little high. I would say that number is probably close to $34 million. And I don't know if it grows linearly.

Dennis Shaffer: No. That's right because we got the tax money in there. Right, right, right.

Rich Dutton: So I think if you had $8 million from the first quarter and $8.2 million, $8.7 million and $9 million, I think that's the way we've budgeted for the year. How about that?

Dennis Shaffer: Oh, $34 million. That's right.

Manuel Navas: Okay. I appreciate that. I like the comments about the NIM with rate cuts. But just for the next -- even more near-term, you put on a lot of loans this quarter. Where do you see the NIM going next quarter?

Rich Dutton: I mean, it might float a little higher, again, just based on what we did on the funding side. And again, we put a lot of higher-yielding loans on in December and November. But I don't know --

Dennis Shaffer: Yes. I think it stays about where it's at. We think it's pretty well troughed. But we hope to get some improvement there. We'll see because we are hopefully getting better pricing on the broker stuff. We're going to hopefully bring down some of the funding costs, which we talked about and we've started to do and then with things repricing. So we're optimistic that we'll be able to improve there.

Chuck Parcher: Yes. I think we're going to see some pressure on the lending side though too.

Rich Dutton: From that [perspective].

Chuck Parcher: Fourth quarter, we felt like we had -- a lot of our competition seemed like they went to the sideline in the fourth quarter, waiting. So believe it or not, in December, our commercial production, new and renewed, was over 8%, which I think is the first time we cliffed the 8% peak. We're seeing rates in the marketplace right now really fall back here mid-January, with almost all the competition back in and a lot of the competition now going back to pricing off the treasury as compared to pricing off where deposit costs [ride].

Manuel Navas: I appreciate that commentary. Overall, I guess that also probably drives some of the loan growth commentary. But is there enough -- is there an amount of success on the deposit side that could give you some upside to low single-digit loan growth?

Dennis Shaffer: Well, I think so. We're really focused on the funding side. I think that's going to be a big challenge not only for us in '24, but for all community banks. So we're all faced with the same thing. We've got a number of initiatives underway as Rich alluded to. Some of those just -- we have scrubbed our existing loan portfolios, whether that's consumer or commercial.

There are customers that don't have a deposit relationship or we know that have substantial other deposits. So we'll be putting a campaign around that to go after those customers. So that will be one of our focuses to try to build core deposits. We are in the process of identifying another bucket of cash-heavy clients, these cash-rich businesses, like law firms or title companies, business and professional associations and then creating niche product to go after to try to get some of those deposits.

We'll probably throw some more dollars at our treasury management area. We've had great success hiring commercial lenders who are pretty well connected with books of business. And we've done that on the treasury side. I think we may want to do that some more and see if they can move over deposits. We're going to expand our digital deposit product offering. So there's a number of initiatives, I think, to do that we're going to be embarking on throughout the year that will give us some opportunity to build upon our strong core deposit franchise.

Operator: Your next question comes from Daniel Cardenas with Janney Montgomery Scott.

Daniel Cardenas: A couple questions here. Your tax rate has been jumping around throughout the year. What's a good run rate to use for you guys on a go-forward basis?

Rich Dutton: 15 for the quarter. I mean, 15 or 16 is probably, I think, where we're settling in at.

Daniel Cardenas: Thank you. And then I noticed a little bit of a creep-up in your nonperformers this quarter. Can you give us a little color as to what was driving that in terms of -- was it one loan? Was it multiple loans? The section of the portfolio that it was coming from? And then also, what do watchlist trends look like for you guys?

Mike Mulford: This is Mike Mulford, the Chief Credit Officer. We had one loan relationship that moved to nonaccrual. It was about $3.5 million. That was a big reason for the jump in the nonperformings. And I missed the last part of your question.

Daniel Cardenas: Yes. Just trying to get a sense of -- well, for that one loan, was that a commercial loan, I'm assuming?

Mike Mulford: Yes. Yes.

Dennis Shaffer: Non-CRE loan.

Chuck Parcher: Non-CRE.

Mike Mulford: Yes. Non-CRE.

Dennis Shaffer: [Indiscernible] loan. And I think he asked about watchlist, and I think that's pretty stable.

Mike Mulford: Oh, yes. Yes. The watchlist credits are pretty stable. Very few great changes for the quarter and systemic issues that we're seeing right now.

Chuck Parcher: And we're also -- Dan, we're not really seeing much movement as far as -- as some of our loans are repricing, we're not seeing a lot of pressure on those loans from the jump in interest rates causing cash flow issues. We always have a handful when you're looking at them. But all in all, it's been very stable. And knock on wood, it remains that way.

Daniel Cardenas: And then are there any particular segments in your portfolio that maybe you're tapping the brakes on as you come into '24? Or is that not necessarily the case?

Chuck Parcher: I mean, obviously, like everybody else, we're very mindful of law office and not to let office exposure get too high. We're watching the hotel piece of it. But we've pretty much stayed flat from a percentage of basis points in that as well. I think somebody earlier mentioned multifamily. We're still bullish on multifamily. But we are taking a closer look, and especially looking at communities, to see if they can sustain the growth of the multifamily that's taking place. So other than that, I think we're probably being a touch more cautious. But we're not really shutting down any areas.

Daniel Cardenas: Okay. Perfect. Perfect. And then the last question I have is just the -- it looks like your home loan advances came down fairly substantially in the quarter. Did you guys do that through the broker deposits that you raised? Or how was that achieved?

Rich Dutton: Yes. That was exactly what it was, Dan. It was just -- it was cheaper to go out and get the brokered deposits than it was borrowing from the Federal Home Loan Bank. And generally, we try to keep the Federal Home Loan Bank stuff freed up because that's something that's readily available. So when we see inefficiencies or opportunities in other wholesale markets or the brokered market, we're always looking. And if it makes sense, we'll take down a chunk of financing there just because again, it's economically to our advantage. And also, just from a risk standpoint, we try to keep the Federal Home Loan Bank line as free as we can just in case.

Daniel Cardenas: And how much capacity do you guys have left on that line?

Rich Dutton: I don't have that in front of me, but -- I'll have to you back you. It's a lot.

Operator: There are no further questions at this time. Please proceed.

Dennis Shaffer: Okay. Well, thank you. In closing, I just want to thank everyone for joining us and those that participated in today's call.

The interest rate environment continues to be a challenge. However, our earnings do remain strong. And our margin remains solid. I am very proud of the fact that for the year, we had record net income, we had year-over-year margin expansion and we had positive earnings per share growth. And I'm sure [there's] a lot of community banks can say that they had all three of those things.

So I remain optimistic that our disciplined approach to pricing and our solid core deposit franchise will continue to produce superior results. And I just look forward to talking to everyone in the next few months to share our first quarter results. So thank you.

Operator: Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.