

MidWestOne Financial Group, Inc. NasdaqGS:MOFG

Earnings Call

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the MidWestOne Financial Group, Inc. First Quarter 2023 Earnings Call. [Operator Instructions] As a reminder, this call is being recorded.

I would now like to turn the call over to Barry Ray, Chief Financial Officer of MidWestOne Financial Group.

Barry S. Ray
CFO & Senior Executive VP

Thank you, everyone, for joining us today. We appreciate your participation in our first quarter 2023 earnings conference call.

With me here on the call are Chip Reeves, our Chief Executive Officer; and Len Devaisher, our President and Chief Operating Officer. Following the conclusion of today's conference, a replay of this call will be available on our website. Additionally, a slide deck to complement today's presentation is also available on the Investor Relations section of our website.

Before we begin, let me remind everyone on the call that this presentation contains forward-looking statements relating to the financial condition, results of operations and business of MidWestOne Financial Group team. Forward-looking statements generally include words such as believes, expects, anticipates and other similar expressions. Actual results could differ materially from those indicated.

Among the important factors that could cause actual results to differ materially are interest rates, changes in the mix of the company's business, competitive pressures, general economic conditions and the risk factors detailed in the company's periodic reports and registration statements filed with the Securities and Exchange Commission.

MidWestOne Financial Group, Inc. undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this presentation.

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

Charles N. Reeves
CEO & Director

Thank you, Barry, and good morning. On today's call, I'll review our high-level financial results and then spend the majority of my time outlining our strategic plan designed to unleash the potential that exists within MidWestOne as we strive to become a high-performing bank with consistent performance. Len will then provide an update on our major markets, and Barry will conclude with a more in-depth review of our first quarter results.

Despite the difficult operating environment, I'm pleased with the progress that we made this quarter on our initial strategic priorities. When I joined the bank in November, it was clear that 2 immediate challenges faced our team, which were MOFG's credit profile and a primarily fixed rate balance sheet, in a rapidly rising rate environment. In the fourth quarter of 2022, we took strategic actions to improve our asset quality metrics and position us well for 2023's uncertain economic conditions.

As outlined on Slide 3 of our earnings presentation, first quarter asset quality metrics prove out the effectiveness of our actions as our NPL and NPA ratios declined further, charge-offs were only 3 basis points and delinquencies remained at low levels.

Turning to our balance sheet in order to reduce our liability sensitivity and improve the future earnings power of our company. In late February, we executed the sale of $231 million in book value available for sale securities, which resulted in a pretax loss of $13.2 million. We received $220 million in proceeds, which were used to pay off our wholesale borrowings and to purchase higher-yielding floating rate securities. The transaction is expected to be accretive to our earnings, net interest margin, ROA and

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tangible common equity. These are 2 very important and immediate steps that needed to be taken as we focus on improving our operations and results.

Turning to Slide 4. Our granular core deposit franchise also performed well given the concerns that swept the sector in the aftermath of Silicon Valley and Signature Bank's failures. While we experienced $154 million of net deposit outflows in the quarter, excluding brokered deposits, $120 million occurred in January, which is a typical seasonal low.

Subsequent to the SVB failure and through the end of the first quarter, total deposits, excluding brokered, grew $3.7 million. At quarter end, our total uninsured less collateralized municipal deposits were approximately 19% of total deposits, and our average deposit account size was only $29,000. Due to the granular nature and even split of consumer and business deposits, our cycle-to-date interest-bearing deposit beta was 24% through the first quarter of 2023. Amid significant deposit competition, we protected our relationship-driven deposit franchise and will continue to do so. Despite our positive deposit franchise metrics, our NIM compressed further in the first quarter, primarily attributable to our aforementioned fixed rate balance sheet composition.

Turning to Slide 5. Our quarter end liquidity position was also very strong with essentially no overnight borrowings and borrowing capacity of $1.7 billion, which provides 165% coverage of our uninsured deposits, excluding collateralized municipal deposits. Importantly, our results this quarter speak to the strong foundation and improving financial position that exists here at MidWestOne. We're fortunate to operate in compelling markets and have a diverse line of businesses. We're the largest headquartered bank in Iowa, having scaled from $1.8 billion in assets in 2014 to $6.6 billion today.

Our granular core deposit franchise has performed well and provides a stable source of funding for growth, and we've seen a significant expansion of our talent base, resulting in solid customer acquisition and loan growth momentum. While we have a solid foundation and accomplished much over the last few years, we'll be for the first to admit that our results have been inconsistent and performance has lagged peers. To solve this, we formulated a strategic plan designed to improve our performance and deliver financial results at the median of our peer group as we exit 2025.

Let's put some numbers around that. Our goal is to achieve 12% annual earnings per share growth, an ROA of 1.1% to 1.2%, annual tangible book value growth of 10% and an efficiency ratio between 55% and 57% exiting 2025. This is a journey and not a destination. We'll continue to drive improvement as we work to become a top-performing bank over time.

To achieve our goals, we've developed a strategic plan outlined on Slide 6, with 5 key pillars focused on our culture, our strong local banking franchise, expanding our Commercial Banking and Wealth Management businesses, expanding into specialty business lines and improving our efficiency in operations. Importantly, continuing to enhance our credit risk management capabilities and investing in our digital infrastructure are key enablers to the successful achievement of our plan. While we're working to become a top-tier bank, I assure you that we will grow prudently.

Turning to our plan as outlined on Page 7. The first strategic pillar is centered on our award-winning culture focused on team member and customer engagement. Our employees have a strong team orientation focused on supporting our customers as well as one another. We're very proud of our Top Workplaces recognition and being named the Best Bank in Iowa by Newsweek Magazine. Importantly, we will continue that legacy as we also enhance our cultural focus on performance and financial results. As an organization, we need to be results-driven, supported by performance metrics and compensation with the goal of delivering financial results and shareholder value. We'll do this while remaining committed to our team and customers. I'm a firm believer that engagement and results go hand-in-hand and are not mutually exclusive.

Our second strategic pillar on Slide 8, and is our solid local banking model that provides a consistent, stable funding source for our company. We protect and enhance our dominant community bank franchise through our engaged employees, who are incredibly active in their communities and through additional product expansion for both consumer and commercial clients in the communities we serve. In fact, consumer loans grew 10% in 2022, and our newly-designed business banking center now is 24-hour

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turnaround for commercial request under $500,000. We expect the small business space to grow 10% annually during our planning cycle.

Our third strategic pillar on Slide 9 is focused on expanding and moving up tier in our commercial banking and wealth management businesses, especially as we lean into our major metro markets of the twin cities, Denver and Metro Iowa. This is a continuation of the strategy we've been executing for several years, where we've been hiring experienced relationship bankers and wealth management professionals to drive organic growth. With that said, we'll be doubling down in these markets with a plan to add bankers and expertise targeting revenue companies from $20 million to $100 million.

Cognizant with slowing economy for the remainder of 2023, we expect to deliver the upper end of mid-single-digit loan growth. For the following years of the planning cycle, we are targeting upper single-digit loan growth. We also see treasury management as a strategic imperative to our C&I up-tiering commercial strategy, and we'll be investing to expand our platform, our product offerings and our talent. Ultimately, a more robust treasury management solution are needed for increased customer acquisition that will drive our deposit growth, improve our noninterest-bearing deposit mix and increase our associated fee income.

Turning to Wealth Management. We're beginning to see the results of our Twin Cities and Cedar Rapids team lift outs as linked quarter fees grew 10% with sizable new AUM acquisition. Reflective of our up-tier strategy, our new average account size from these 2 groups has been $4 million in comparison to our overall average account size of $1 million. We'll continue to look for additional team lift-out opportunities in our metro markets as we further drive asset growth and fee income. Key to team member and customer acquisition has been a more robust investment strategy platform, and we'll continue to add these offerings throughout the planning cycle.

Our fourth strategic pillar on Slide 10 is the expansion and development of specialty commercial banking markets or verticals, where our expertise in customer solutions will drive additional customer acquisition, full relationships and drive our company's profitability. Our plan calls for immediate verticals in commercial real estate, government guaranteed lending and agribusiness. The CRE vertical will initially be designed for consistency, robust portfolio management and client selection and will evolve to prudent growth.

Our current Twin Cities commercial banking leader has extensive super regional bank experience in this space and will lead the segment. Government guaranteed lending is also a natural fit for our local and metro bank markets, and our desire is to become one of the leading banks 7(a) lenders in our footprint. Our SBA leader joined in the fourth quarter of 2021, and our sales team is being developed. We're already seeing momentum building here in 2023 and anticipate this initiative will be a meaningful fee income contributor in 2024 and beyond.

Lastly, we've been in the ag business for a long period of time, primarily focused on small farms here in our home state of Iowa. We're missing significant business opportunities with larger growers and producers as well as suppliers to this industry. We are well along in our recruitment of a leader for this space as well as an additional banker and look forward to their industry expertise and relationships. In the future, we will review and develop additional specialty lines that are complementary to our strategy, our experience and our markets.

Underpinning our commercial expansions to focus on risk management expertise and capabilities. As such, we've recently expanded our credit administration team with a hire of a seasoned credit executive whose responsibilities will include our Iowa banking footprint as Gary Sims, our Chief Credit Officer, who have direct responsibility for our major metro markets and our evolving specialty lines of business.

Our fifth strategic pillar on Slide 11 is focused on improving our operational effectiveness and efficiency. To accomplish this, we've engaged a third-party strategic consulting firm, who will assist our review to identify areas for efficiency gains and cost reduction. Our expectations are to reallocate 2.5% of our operating expense base into more productive, profitable markets and departments and then to reduce an additional 2.5% of our Q4 2022 operating expense run rate that will improve our go-forward operating expenses.

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After a thoughtful and intentional review, we expect these actions to take place throughout 2023. We initiated the first action in mid-April as we've scaled back our mortgage operations, reflecting the current macro environment as well as a sharpened focus on mortgage originations from current MidWestOne customers. We'll also be investing into our digital capabilities and infrastructure. We've created a 3-year technology and digital road map focused on improving our customer experience and enabling our company to achieve our strategic plan efficiency priorities.

To conclude, I'm very excited about the opportunity that lies ahead for our employees, our customers and our shareholders. We have a terrific foundation. We operate in compelling markets, and we have an outstanding group of employees. A plan I've laid out will unleash to the potential that exist within MOFG. From a timing perspective, I see 2023 as a transformational year. We will expand our team, reduce our expenses and drive operational improvements.

As a result, our financials, I'd like to have a little bit of noise in them not to mention the macro backdrop is uncertain. As outlined on Slide 12, I do believe that 2024 will be a clean year and expect to exit the fourth quarter of 2024 with an ROA of 90 to 100 basis points deposit growth of 2% to 4%, loan growth of 7% to 9% and an efficiency ratio of 58% to 60% as we track to our goals of delivering 12% annual EPS growth, an ROA of 1.1% to 1.2%, tangible book value growth of 10% annually and an efficiency ratio of 55% to 57% exiting 2025.

Importantly, we have lofty longer-term goals, and this is just the starting point as we strive to become a top-performing bank.

Now I'd like to turn the call to Len.

Len D. Devaisher
President & COO

Thank you, Chip. And good morning, everyone. As Chip discussed, an important part of our strategic plan is to grow our commercial and wealth management businesses, which is a continuation of our efforts that we put in place over the last couple of years and an opportunity to build upon the strong foundation that we have in place today.

Starting on Slide 14. Signs of our success can be seen in our commercial loan growth powered by our core markets of Denver, up $26 million; the Twin Cities, up $28 million; and Metro Iowa, up $42 million in the first quarter. As Chip stated, we will be increasing the pace of investment in the years ahead, where we believe our loan-to-deposit ratio positions us to take share and maintain our strong risk profile.

We are also pleased that our growth remains balanced across verticals. C&I, multifamily, industrial, owner-occupied medical and municipal represents some of the largest originations in the first quarter. Notably, nonowner-occupied office exposure represents only 4.7% of our loan portfolio as outlined on Slide 15. With 30- to 89-day delinquencies at 13 basis points, non-performing loans at 37 basis points and an allowance coverage ratio of 1.27%, we are pleased to enter this stage of the cycle from a position of strength.

Turning to Slide 16. We continue to see momentum in Wealth Management from recent talent investments that are bringing new client acquisition. Average assets under administration were up 2.6% quarter-over-quarter, and revenue was up 10%. In the wake of the sensitivity over insured deposits, which emerged during the quarter, our wealth management team deployed approximately $15 million of client bank deposits into treasuries and similar liquid investments. Keeping these funds under our roof represents the strength of our relationship-based approach.

Given the longer sales cycle of the Wealth business, a longer view can be helpful. First quarter end-of-period assets are up 4.5% from a year ago. Notably, that's a 4.5% increase in the same period when the S&P delivered a 9.3% decrease. Recognizing that market valuation movements are beyond our control, we track new client acquisition as well as client retention as the key lending -- leading indicators of the strength of our Wealth Management business. In the first quarter of 2023, we signed up more than $60 million of new client assets, representing approximately $300,000 in recurring fee income. The pipeline

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remains robust. We are on track to open our new Cedar Rapids wealth and commercial office on June 1. Our private banking team has generated $12 million in new AUM in Q1.

And as you can see on Slide 16, these wealth initiatives represent a consistent and sustained focus on growing this important fee business. Our journey of growing Wealth Management, including more detail to help you track our progress, will continue to be a prominent feature of our strategic plan updates.

With that, I'm pleased to turn the call over to our CFO, Barry Ray, to discuss our financial results.

Barry S. Ray
CFO & Senior Executive VP

Thank you, Len. I'll walk through our financial statements beginning with the balance sheet, beginning on Slide 18. Starting with assets. Loans increased $78.8 million or 8.6% annualized from the linked quarter to $3.9 billion. Strength in the first quarter was led by commercial loans, which increased $85.6 million or 11% annualized from the linked quarter. In the quarter, new loans were brought on at an average coupon of 6.7% and at a premium from 6.06% in the fourth quarter of 2022. The overall portfolio yield was 4.95%, resulting in a 29-basis-point improvement in loan yield as compared to the linked quarter.

Deposits increased $86.2 million to $5.6 billion from the linked quarter, driven by an increase in brokered deposits of $239.8 million. Excluding these brokered deposits, our total deposit base declined $153.6 million from the linked quarter. As Chip touched on, we experienced most of those net outflows in the month of January when deposits declined by $120 million. That said, the turmoil in the banking sector following the collapse of Silicon Valley Bank and Signature Bank in March disrupted our typical seasonal build that we expected to experience through quarter end, having seen net deposit outflows instead. Importantly, we experienced $3.7 million of net deposit inflows, excluding brokered deposits from March 9, 2023, to the end of the first quarter of 2023.

Additionally, total uninsured deposits, less municipal deposits secured or collateralized in accordance with state law represented an industry low 19% of total deposits at March 31, with an average account size of $29,000. We ended the quarter with $1.7 billion of available borrowing capacity, which exceeds our uninsured deposit base, excluding collateralized municipal deposits, placing us in a sound financial position.

Given the rise in interest rates, combined with the turmoil in the banking sector, competition for deposits remained high, resulting in a further increase to our cost of funds through the first quarter. Specifically, the cost of interest-bearing liabilities increased 51 basis points to 1.59%, comprised of increases to our interest-bearing deposits, short-term borrowing costs and long-term debt costs.

Finishing the balance sheet. Total shareholders' equity rose $7.9 million to $500.7 million, driven primarily by first quarter net income and a favorable change in AOCI of $10.2 million, partially offset by cash dividends of $3.8 million.

Turning to our securities sale. We sold $231 million in book value AFS debt securities prior to the collapse of Silicon Valley Bank and Signature Bank, resulting in a pretax realized loss of $13.2 million. We received $220 million of proceeds, which were used to pay off certain of our wholesale borrowings and to purchase higher-yielding floating rate available for sale securities. Overall, the restructuring is expected to be accretive to earnings, net interest margin, return on assets and tangible common equity in future periods and improving our interest rate risk profile.

Turning to credit quality on Slide 21. Following the strategic actions in the first quarter -- fourth quarter, to improve the credit profile of our loan portfolio and position the bank for an uncertain economic outlook, we have experienced improving credit metrics through the first quarter as our nonperforming loan ratio improved 4 basis points to 0.37% and our nonperforming assets ratio improved 1 basis point to 0.23% as outlined on Slide 21. During the quarter, the allowance for credit losses increased $0.6 million to $49.8 million or 1.27% of loans held for investment at March 31. The increase was due to credit loss expense of $0.9 million, partially offset by net loan charge-offs of $0.3 million.

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Turning to the income statement on Slide 22. Net interest income declined $3.5 million in the first quarter to $40.1 million as compared to linked quarter due primarily to 2 fewer days in the current quarter as well as higher funding costs and volumes, partially offset by the increase in interest earning asset volumes and yields. Our net interest margin declined 18 basis points to 2.75% in the first quarter as compared to 2.93% in the linked quarter. Our NIM in the first quarter continued to be impacted by an increase in our funding costs, which rose more rapidly than the increase in our total interest-earning asset yields.

Noninterest income in the first quarter declined $15 million, resulting in a loss of $4 million as compared to the linked quarter. The decline was primarily due to the pretax realized loss of $13.2 million, resulting from the sale of AFS debt securities as part of the balance sheet repositioning. Also contributing to the linked quarter decline was the bargain purchase gain adjustment of $2.5 million recorded in the fourth quarter of 2022 related to the acquisition of Iowa First Bancshares Corp.

Finishing with expenses. Total noninterest expense in the first quarter was $33.3 million, a decline of $1.1 million or 3.3% from the linked quarter. The decline was largely a result of overall decreases across all noninterest expense categories with the exception of occupancy, marketing and FDIC insurance. These decreases primarily reflected the decline in incentive compensation and merger-related expense. These declines were partially offset by an increase of $0.3 million in FDIC insurance premiums.

As Chip mentioned, a key pillar of our strategic plan is focusing on improving our efficiency and operations, including cost reductions. In total, we expect operating expenses to decline by 5% or $6.5 million, with half being reinvested in the business. The net cost takeout of approximately $3.25 million will occur over the course of 2023. We expect our quarterly expense run rate for the balance of the year to be in line with Q1.
And with that, I'll turn it back to the operator to open the line for questions.

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Question and Answer

Operator

[Operator Instructions] The first question comes from Brendan Nosal of Piper Sandler.

Brendan Jeffrey Nosal
Piper Sandler & Co., Research Division

Thank you guys for all the detail on the plan, especially the guidebooks for '24 to help us gauge progress. I guess I'd love to cover yourself, kind of keep it high level for a few questions. Maybe just to start off. How do you guys envision the newer commercial vertical shifting the risk profile of the bank longer term? Is it a material change? Or is it more kind of tuning around the edges?

Charles N. Reeves
CEO & Director

And Brendan, this is Chip. I'll go ahead and answer that. And then Gary Sims, our Chief Credit Officer, is here as well. Frankly, I think initially, it will improve the credit risk appetite and credit profile of the organization through the consistency that we'll have across the complete franchise as well as then what I've always seen as we begin to specialize or have industry experts. On the sales side, that client selection begins to improve as well.

Now as we've mentioned, the first one that we're looking at is commercial real estate. I think it's a very prudent period of time for us to do that with that mindset. Ultimately, when the time is appropriate, we'll evolve to prudent growth. Government guaranteed lending, perfect time in the economic environment, I believe, for us to be there with our customers. And then agribusiness, the same thing. I believe it will improve and enhance our credit risk profile and our credit appetite there. Gary, any additional comments?

Gary L. Sims
Senior VP & Chief Credit Officer

Yes. Brendan, not a lot to add in terms of the impact. I agree with Chip in that the activity of creating the specialization and the additional focus and consistency across the banking franchise is really what will enhance the credit risk profile in both the short term and over the long term.

Charles N. Reeves
CEO & Director

And then as we move more into the moderate or intermediate stage, call it, 2024, Brendan, as we determine what additional specialty business lines we may enter, it will obviously be done prudently. Could there be some that have a more moderate risk profile? Absolutely, but they'll also have a better return metric and profile of risk/reward than -- or risk-enhanced return than perhaps in some of our other current business lines, too.

Gary L. Sims
Senior VP & Chief Credit Officer

And Chip, the one thing I'll add to the approach to the additional specialties, in my experience, the key there is to is to go into that industry, find the industry professionals that have the experience, the exposure to that market. It brings them into the company and get them to build that additional line of business, which moderates the risk profile over time.

Brendan Jeffrey Nosal
Piper Sandler & Co., Research Division

Yes, yes. Understood. Okay. And then just kind of thinking about the path to kind of metrics you folks laid out. Just kind of curious, what interest rate assumptions are you guys using in those projections?

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Because obviously, rates are out of your hand and can move things quite a bit. And then maybe how much of achieving those is dependent on a specific rate environment?

Barry S. Ray
CFO & Senior Executive VP

This is Barry, Brendan. I'll take that. For the financial modeling that we were doing during our strategic planning process, we were really using kind of the latest forecast around what was going to happen at rate, and so that was essentially increasing to the Fed funds target rate as expected right now with the decline in rates in the future year starting at the -- beginning at 2024. And given the fact that our balance sheet is a liability sensitive, we were seeing some benefit from that in the plan. So that's the rate outlook that was included in the financial modeling that we utilized to get to those results.

Brendan Jeffrey Nosal
Piper Sandler & Co., Research Division

Perfect. Okay. That's helpful. And then last one for me before I step back here. Just curious if the shift up in the growth profile of the bank over the next few years requires any new geographies or market expansions or as you can do within your existing footprint?

Len D. Devaisher
President & COO

Brendan, this is Len. We feel confident we can do it inside our existing footprint. We're seeing momentum already across particularly the large metro markets, and we see opportunities for us as we look ahead.

Charles N. Reeves
CEO & Director

I think, Brendan, I have a phrase that I've been using across the organization, which is bigger is not necessarily better. Let's be better first. And that would also probably apply initially to expansion of geographic regions even on an organic basis. We can be better right in our current compelling markets, especially in the first 12 or 24 months of this plan. And so better is better.

Operator

The next question comes from Terry McEvoy of Stephens.

Terence James McEvoy
Stephens Inc., Research Division

Maybe if I could start with an expense question. When I look at Slide 11 and take 2.5% of the run rate expenses in the fourth quarter at about $3.5 million. Is that the necessary investment to fund everything we've just talked about over the last 30 minutes? Because to be fair, it does sound relatively small relative to the plan.

Charles N. Reeves
CEO & Director

So Terry, this is Chip, and then I'll have Barry expand on that as well. What I would tell you is it gets us the vast majority of the way there. And then ultimately, we continue to contemplate other strategic actions as well.

Terence James McEvoy
Stephens Inc., Research Division

Got you. And then as a follow-up, can your local banking teams fund the new lending businesses from a deposit standpoint? And I haven't had a chance to kind of think about all those businesses you discussed. What comes with deposits? And maybe said another way, does the plan really assume deposit market share gains in some non-Iowa markets where you've got low share?

Charles N. Reeves

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CEO & Director

Len?

Len D. Devaisher
President & COO

Yes. So I would direct you, Terry, to Slide 10 as a way to think about this. So we are definitely thinking about these initiatives in a balanced way of loan and deposit relationships. And so if you think about both commercial and wealth focus, it really is with deposits to view as well. So on Slide 10, for example, we talked about a deposit vertical. When we think about going up tier and middle market C&I, investments in treasury management, it is a prominent part of this plan, and we anticipate that to help us take share in deposits in our existing markets. So each of those, I would point to that is the way we're approaching the business.

Operator

The next question comes from Damon DelMonte of KBW.

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

Thanks for all the detailed overview of the strategic plan. As it relates to kind of building out these verticals, what kind of investment in the lending teams are you expecting to make? Do you anticipate hiring? Is there like a number of lenders that you think you need to bring on board? Or how do you kind of balance that with meeting your objectives?

Len D. Devaisher
President & COO

Damon, this is Len. Yes, we certainly do envision adding relationship managers as well as underwriting capacity. I would note that one of the things we've already done to position ourselves for this is that Gary has added a Senior Credit Officer to his credit administration team. So we see it on both.

I would also add, I just referenced investment in treasury management. We are pursuing a director of treasury management and additional treasury expertise as well to complement our existing team. So a lot of the reinvestment that's spoken about in the plan are those kinds of talent investments.

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. Okay. And then to circle back on the expense and the kind of reallocation. Barry, could you just go over your guidance again? So did you say that a 5% reduction off of the -- like the fourth quarter level, 2.5% of that would fall to the bottom line and 2.5% would be reinvested elsewhere to support the development of these goals?

Barry S. Ray
CFO & Senior Executive VP

That's exactly correct, Damon. You interpreted it correctly. 5% growth on the fourth quarter '22 run rate, 2.5% reinvested, correct.

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then as far as like the quarterly level of expenses from this quarter, you think you can kind of hold those flat?

Barry S. Ray
CFO & Senior Executive VP

That's what we're expecting, Damon, yes.

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Operator

The next question comes from Brian Martin of Janney.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

So Barry, just back to the expense for a moment. Just the savings to begin just high level. I know to understand there will be a lot of noise here. But the 2.5% expense savings, does that begin -- you quantify the amount. But as far as when it actually begins with kind of the comments about [stable], is that a beginning the next couple of quarters? Does it begin in '24? What's kind of the step down of that 2.5%? Where do we see that? Or is it embedded in this flat guidance near term? How to just understand or interpret that?

Barry S. Ray
CFO & Senior Executive VP

Yes. I think we'll expect to recognize the cost savings over the course of 2023, and we would say that the first quarter of 2024 will probably be the first clean quarter. But it's a little bit embedded in the flat expenses that we were just discussing. It's how I think about it, Brian, but it's going to be recognized over the course of 2023.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Okay. So that is how we'll see a step down in that expense going from the end of this year into '24. It will kind of already be embedded in what you're talking about. So okay. Thank you for clarifying that and then just, I think, Chip, maybe you talked about looking at the different geographies of the firm and investing in certain areas here. But are there -- have you contemplated, or I guess if I missed it, exits from markets you're in currently? I know you're kind of exploring that. Or is that still a work in progress? Or how do we look at the geographic footprint where it sits today? Does it remain unchanged and it's building out and improving? Or is there still more to come on that?

Charles N. Reeves
CEO & Director

Brian, I think you hit the nail on the head in terms of -- we identified some of our investment markets, especially the metro markets of the Twin Cities, Denver and Metro Iowa. And then in relation to the entire geographic footprint, what I'd say is we continue to evaluate as we move through our operating expense base review. But I have a firm belief overall that we look at it in terms of where can we have relevance and where can we have scale. And that ends up being one of those that's important for our team members, our customers and the communities in each region that we're in. If we can achieve that, we'll invest in those markets. If we ultimately decide that is not achievable, then we may take a different direction. So we'll continue to look through that here in the second and third quarters.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Yes, I was going to say when if you -- when do you kind of complete the process of evaluating the -- what are your expectations that kind of have a better defined goal of what's relevant and what's not as you kind of assess things? I know it's early.

Charles N. Reeves
CEO & Director

What I'd say here is 2023 is going to be the year for all of these decisions to be made, Brian.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

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Got you. Okay. helpful. And then what's -- I guess you've done this. Just kind of your outline, Chip, and all the high level. Where do you see the biggest challenges to achieving kind of the hires at the specialty businesses? I mean is it attracting talent? Is it -- I guess where do you see the potential challenges as you kind of execute this plan over the next 12 months?

Charles N. Reeves
CEO & Director

We mentioned specifically the specialty business lines, and what I'll say there is very confident in terms of the 3 that we identified in our comments. And the reason why there is that the talent is in place in 2 of the verticals already and the experience level of individuals within the organization are there. And now, frankly, it's a strategic focus in order to drive the business units. The third, which we mentioned was agri business, and we're close to putting that one together. And we already do a fair amount of ag business and have some very good individuals in that business, especially across our rural Iowa markets and into Wisconsin. And here, we'd be looking at probably an up-tiering of that already current strategy. So I feel very confident there.

And then in terms of anything in the future, Gary said it very well. I think there, we target the best opportunity and then find the best leader for that opportunity. Without those 2, we won't go down the path.

In terms of our expansion and up-tiering within commercial banking and wealth management, very confident as well. And the reasons why is we've already begun, and we're proving it out. You've seen in commercial banking, 4 consecutive quarters now of upper single digits to even lower double-digit loan growth. That will -- the consistency of the effort will continue to improve. The talent will continue to improve. And we'll be prudent and take essentially what that macro environment gives us there. And then wealth management, we are absolutely seeing the impact now of the actions we've already taken in terms of our sales management or sales teams in that arena. So I feel very good there. Our -- the piece that we're working -- continuing to work through is our fixed rate balance sheet. And we've already identified that and took strategic action as well here in the first quarter. So I'm feeling good.

Len D. Devaisher
President & COO

Yes, I would just -- this is Len, Brian. I'd just add to that as we are recruiting talent on some of these verticals and so forth, the story we have to tell I think is one that's helpful to us. And by that, I'd point to the credit profile that we have, combined with the loan to deposit profile that we have, means that we can do the right deals. And that is something that gives us an edge in today's marketplace.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Got you. And just the last 1 or 2 for me here. Just the plan on the balance sheet repositioning, I guess is this complete at this point? Do you see more opportunities there? I guess, was this just the start? Or just trying to understand is it maybe kind of situated better now? Or is there still more consideration there?

Barry S. Ray
CFO & Senior Executive VP

Yes, this is Barry, Brian. With respect to the [bond loss sale], I would look at that. That was a final event as we looked at it. So I would say it's complete. We don't expect to undertake additional [bond loss sale] type transaction. Having said that, now, will we -- if we have an opportunity to sell bonds not at a loss, to the extent that we need liquidity, would we do that? We would look for those opportunities. But the [bond loss sale] transaction that we described in the first quarter, I would view that as complete.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Okay. That's helpful. And then just as it relates to that, can you give us any sense on the margin, just at least near term to kind of think about going forward here, just maybe where the spot margin ended in

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March? Is that kind of the best way to think about where the starting point is now heading into 2Q given the bond? Sounds like the sales occurred in late February.

Barry S. Ray
CFO & Senior Executive VP

Yes, the spot margin for the month of March, Brian, I have it at around [272] for the month of March. I would say that's a good starting point. I expect that to the extent they're looking forward, we'll probably continue to have some upward pressure on the funding side of the balance sheet to the extent that we experienced the deposit outflow as well as have an increased mix in our deposit volumes to higher cost deposits. So that will be upward pressure. So I would expect that looking forward, probably some downward pressure on our net interest margin. Do I believe it will be the 18 basis points that we experienced quarter-over-quarter? I expect and believe it will be less than that.

Operator

The next question is a follow-up from Damon DelMonte of KBW.

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

Just wanted to follow up on -- you alluded to the good traction you're seeing with the Wealth Management division. How should we think about that revenue line item as we progress through '23? So do we start seeing a meaningful lift in the upcoming quarters? Or do you think that really translates into more of a '24 event?

Len D. Devaisher
President & COO

Damon, this is Len. I would say on that particular line, I think Q1 is good, and I expect it to keep posting moderate growth across my expectations, moderate growth across '23. One of the things as we referenced in the comments is the market valuations, as you know, do have an impact on that, but we're -- what encourages us is that net new AUM number. And what I'm particularly focused about and encouraged by is that the talent we've brought on is the average account size that's coming across is significantly larger than our legacy account size, and that's given us lift in this environment.

Operator

[Operator Instructions] The next question is a follow-up from Brendan Nosal of Piper Sandler.

Brendan Jeffrey Nosal
Piper Sandler & Co., Research Division

Maybe just one more for me. I know that it's early days here. But just kind of looking at the point-to-point ROA, roughly 70 basis points on a core basis this quarter. So that's, [45] bps of improvement to kind of get to the midpoint by 2025. A lot of initiatives that you folks have ongoing between NII fees and expenses. I mean could you just give us a rough road map on that 45 basis points? How much is each initiative roughly going to contribute?

Charles N. Reeves
CEO & Director

Brendan, I think -- this is Chip. We'll do a follow-up with you on that one in terms of each initiative because, obviously, it's also affected by the forward curve, and what we'll try to do is break out that for you a little bit deeper. So we'll circle back with you on that one.

Operator

Thank you. There are currently no additional questions registered at this time. So I will pass the conference back over to the management team for any closing remarks.

Charles N. Reeves

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CEO & Director

Excellent. This is Chip Reeves. Thank you, everyone, for joining us here today and for your interest level. We look forward to speaking again at the end of August and giving you an update in terms of our progress in the second quarter along our strategic plan. Thank you, everyone.

Operator
And with that, we will conclude today's call. Thank you for participating. You may now disconnect your lines.

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