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# MidWestOne Financial Group, Inc. NasdaqGS:MOFG

*Earnings Call*

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# Call Participants

## EXECUTIVES

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**Charles N. Reeves**
*CEO & Director*

**Gary L. Sims**
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**Len D. Devaisher**
*President & COO*

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**Brian Joseph Martin**
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**Damon Paul DelMonte**
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# Presentation

**Operator**

Good morning, ladies and gentlemen and welcome to the MidWestOne Financial Group, Inc. Third Quarter 2024 Earnings Call.

[Operator Instructions] As a reminder, this call is being recorded. I would now like to pass the call over to Barry Ray, Chief Financial Officer of MidWestOne Financial Group. Thank you. You may proceed, Barry.

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

Thank you, everyone, for joining us today. We appreciate your participation in our earnings conference call this morning. With me here on the call are Chip Reeves, our Chief Executive Officer; Len Devaisher, our President and Chief Operating Officer; and Gary Sims, our Chief Credit 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 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, Inc. 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. Midwest One 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. Good morning, and we truly appreciate everyone joining us for this quarter's call. Today, I'll provide a high-level overview of our common equity capital raise and balance sheet repositioning as well as highlights regarding our continued strategic initiatives execution. Len will provide an update on our lines of business, and Barry will conclude with a more detailed review of the capital raise and our third quarter financial results.

We are very pleased with the market receptivity for our common equity offering, which was increased to around $109 million and with the overallotment being executed quickly resulted in an almost $125 million gross capital raised. The offering was 3x oversubscribed by an outstanding mix of existing and new shareholders. We immediately commenced with the sale of $1 billion in debt securities with the resulting proceeds utilized to pay off high-cost borrowings and purchase higher-yielding securities. The financial metric results of the transaction exceeded our communicated expectations. Our capital levels are now higher and critically of higher quality, and our future profitability will be dramatically increased.

Turning to the continued execution of our strategic initiatives. Our deposit franchise showed its strength as deposit costs increased minimally, aided by our treasury management focus, which delivered 4% linked quarter noninterest-bearing deposit growth. Commercial banking led our loan growth, which grew a solid 4% annualized. Asset quality continued to improve, and our SBA lending initiative had its best quarter to date. Importantly, due to low price loan growth, repricing opportunities and the aforementioned controlled deposit costs, our tax equivalent net interest margin expanded an additional 10 basis points in the quarter, leading to a 3% quarterly increase in our net interest income.

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During the quarter, we continued our talent and platform investments, while maintaining our expense discipline. We continue to fund the majority of these investments by reallocating expense reductions into more productive and profitable people, markets and departments.

To conclude, over the last 2 years, we've transformed MidWestOne, positioning the bank to become a consistent, high-performing company. I'd like to thank our team for their continued customer focus and the extreme execution of our initiatives.

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

**Len D. Devaisher**
*President & COO*

Thank you, Chip. Let's start by talking about the ultimate driver of franchise value, our strong funding base. While the total deposits declined $43.7 million in the third quarter, we are pleased with improvements in deposit mix, including core deposits, which increased $40.5 million, and noninterest-bearing deposits, which increased $35.2 million. This improving mix has shown up in the cost of interest-bearing deposits, which increased 9 basis points from the first to the second quarter and only increased 4 basis points from the second quarter to the third quarter. Particularly in our Iowa footprint, we've seen some very aggressive pricing in public funds time deposits. And so we have chosen to let those funds flow out, while concentrating our deposit efforts on core customer relationships.

Our consumer and commercial deposits are up year-over-year. And year-to-date, we've organically generated over 1,200 net new accounts in our consumer and commercial segments. The growth in noninterest-bearing balances in the third quarter has been propelled by our commercial segment deposits, which were up $47.3 million. In our strategic plan, we have described our focus on accelerating our treasury management business and C&I banking. These efforts are bearing fruit. In fact, year-to-date, treasury management fee income is up 11% year-over-year, which reflects considerable acceleration from the 6.3% gain we saw and talked about last quarter.

Speaking of C&I, let's talk about our loan portfolio. As Slide 6 highlights, C&I growth in the third quarter was 11%, and CRE growth was 3%. The commercial loan growth is centered in our Denver and Twin Cities markets, again, as highlighted in our strategic plan focus areas. Total loan growth was modest at 1% in the third quarter. While consumer declined in the quarter, total commercial balances grew 5.9% on a linked quarter annualized basis.

Importantly, as Slide 8 shows, nonperforming assets declined $5.7 million, representing the second consecutive quarter of declines in this category. Commercial loan balances, excluding substandard loans, increased at 6.9% on a linked-quarter annualized basis. Our strategic plan talks about commercial and treasury management, as we've discussed, and it also references fee income drivers. Our government guarantee SBA business generated $574,000 in gain on sale income in the third quarter.

As Slide 10 shows, wealth management continues to be a strong contributor with assets under management up quarter-over-quarter. While fee income was down 3% from the linked quarter, it remains up 15% year-over-year. We are pleased to welcome a new wealth adviser in the Twin Cities and a new private banker in Denver as we continue to build out the platform. You'll note this is our second consecutive quarter of adding wealth producers.

With that, I'm pleased to turn the call over to Barry.

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

Thank you, Len. I'll start by providing a few more details on both the common equity capital raise that we completed on September 30 and the subsequent balance sheet repositioning that was completed earlier this month.

With respect to the capital raise, including the over-allotment, we issued 4,999,050 common shares at a public offering price before underwriting discount and expenses of $25 per share. Net proceeds to

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the company were $118.6 million. On September 30, we invested all those net proceeds into the bank subsidiary in anticipation of the repositioning. Though the security sales themselves did not occur until after quarter end, our intent on September 30 was to liquidate a large portion of the portfolio, including certain securities classified as held to maturity.

Accordingly, accounting rules require us to: one, reclassify all securities previously classified as held to maturity to available for sale; and two, recognize in earnings to the impairment related to the securities to be sold. Hence, the $140.4 million of impairment in the third quarter that drove the net loss for the period.

Beginning October 1, we commenced the balance sheet repositioning, which we completed on October 9. Over that period, we sold $1 billion of securities, primarily corporates, munis and CMOs that had a book yield of 1.58%. Proceeds from the sales were used to pay in full are $418.7 million of Federal Reserve Bank term funding program borrowings, including accrued interest that were costing 4.77% and to purchase $590 million of agency CMO and pass-through securities yielding 4.65%. We estimate the earnings breakeven period on the transaction is 4.5 years, which is well short of the 5.5 year weighted average life of the securities sold.

The reinvestment mix focused on securities providing predictable, stable cash flow and earnings profiles, minimal credit risk and optimal liquidity. For reference, we include Slide 13 in the accompanying presentation materials to provide a before and after summary of our debt securities portfolio volume, mix, yield and duration. We expect the capital raise and balance sheet repositioning will immediately add about 70 basis points to our net interest margin and be about a $35 million boost to annualized net interest income.

Transitioning to the balance sheet. Len covered the loan and deposit changes, so I'll touch on equity, which increased $19 million from June 30, 2024 to $562.2 million, due primarily to the additional common stock and surplus from the capital raise, partially offset by a decrease in retained earnings driven by the securities impairment. The tangible common equity ratio was 7.22% on September 30, 2024, up 34 basis points from June 30, 2024, as tangible equity growth outpaced tangible asset growth.

Turning to the income statement. On Slide 14, we reported a net loss of $95.7 million or $6.05 per common share. Adjusted earnings, which exclude net investment securities losses, mortgage servicing rights adjustment and merger-related costs, were $9.1 million or $0.58 per common share. Net interest income increased $1.2 million in the third quarter to $37.5 million as compared to the linked quarter, due primarily to higher earning asset yields and lower funding volumes, partially offset by lower earning asset volumes and higher funding costs. Loan interest income in the third quarter of 2024 included $1.4 million of loan purchase discount accretion compared to $1.3 million in the linked quarter.

Our tax equivalent net interest margin increased 10 basis points to 2.51% in the third quarter compared to 2.41% in the linked quarter as earning asset yields increased, while funding costs were relatively flat. The average loan portfolio yield for the third quarter was 5.86%, a 17 basis point improvement from the linked quarter, while the average yield on new loan originations during the third quarter were 7.58%. On the liability side, total deposit costs increased 3 basis points from the linked quarter to 2.14%. Noninterest income in the third quarter of 2024 was a loss of $130.4 million due to the securities impairment.

Adjusting for securities gains and losses, mortgage servicing right valuations and second quarter's gain on the Florida branch sales, noninterest income was up $600,000 from the linked quarter due to improved quarter-over-quarter SBA gain on sale performance of $360,000 as well as a $200,000 BOLI death benefit recognized during the third quarter.

Finishing with expenses. Total noninterest expense of $35.8 million in the third quarter was flat from the linked quarter. Expenses in the third quarter included a $1.2 million fraud loss from a single incident and compared to linked quarter, an additional $200,000 of costs related to foreclosed assets. Expense control remains a focus of our management team, and we continue to be pleased with our execution.
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] Our first question comes from the line of Brendan Nosal with Hovde Group.

**Brendan Jeffrey Nosal**
*Hovde Group, LLC, Research Division*

Just to start off here on the pro forma balance sheet. Could you help us understand how the new sheet is positioned for additional Fed cuts over seemingly in the next 15 months or so? I mean it certainly seems like the sheet should be less liability sensitive than it was, but wondering if there's the potential for additional margin improvement across '25 from the new base that you've established with the suite of transactions?

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

Yes, Brendan. Certainly, we believe that there is opportunity for continued margin expansion based upon what we're seeing or expecting with respect to the yield curve, i.e., the front end of the curve coming down and maybe getting some positive slope in the curve. So yes, we expect that, that would be a good thing for us as well as all banks. Just from the standpoint if it would be -- okay, great.

**Brendan Jeffrey Nosal**
*Hovde Group, LLC, Research Division*

Yes, please finish with that, Barry.

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

I was just going to say in parallel -- from a parallel rate shift, Brendan, we model a little bit more asset -- a little bit more asset-sensitive because of the transaction, for example, paying off the bank term funding program, which was a short-term liability.

**Brendan Jeffrey Nosal**
*Hovde Group, LLC, Research Division*

Yes. Yes, that makes sense. Okay. Maybe just moving on to the wealth business. It looks like AUM was up quite nicely for the quarter, 2% plus sequentially, but the fees were down a little bit sequentially, implying like a bit of a lower fee capture rate on that AUM base. Just curious if there's anything episodic in this quarter's number or anything that's worth calling out?

**Len D. Devaisher**
*President & COO*

Yes, Brendan, this is Len. So as you think about the wealth business, there's the 2 pieces, right? So you think about our shop with our private wealth business as well as the trust services and you think about the investment services business. So private wealth and investment services has a component that's just the straight AUM. Think of it as ongoing recurring fee as a percentage of assets. The trust business has some more episodic revenue relative to estate fees and those kinds of onetime transactions. And then finally, the investment services business, we have seen an increased interest in annuities given the rate environment and rate outlook, and that also has some more lumpiness to it. So that's what you're seeing.

**Brendan Jeffrey Nosal**
*Hovde Group, LLC, Research Division*

Okay. That's helpful. One more for me before I step back. Just looking at your growth markets in Denver and the Twin Cities, just curious, of those 2 markets, where are you seeing the better opportunities today? And which product sets are you having the most success with in each of those markets?

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**Len D. Devaisher**
*President & COO*

That's like asking me to pick my favorite child. So I don't know if I can -- where I see -- because I see robust opportunities for us in both places. What I would say is, as I think about the third quarter in both places, the growth is C&I-driven. And so -- and in both of those, that's one of the things we talked about being focused on, and we're seeing traction there. And we feel pleased from a CRE perspective, we're starting to see some more interest in that piece of the pipeline, and we feel really good about where we are in terms of our CRE, non-owner occupied capital, so that we can continue to support customers when the deal fits and makes sense.

**Operator**

Our next question comes from the line of Terry McEvoy with Stephens.

**Terence James McEvoy**
*Stephens Inc., Research Division*

Maybe just start with Barry, your thoughts on the 4Q expenses ex the fraud item. And then when you think about 2025, the investment in people and technology, how are you thinking about expenses next year as well?

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

Yes. I've got it, say, about $34.5 million for the third quarter, Terry, to take out the fraud and the merger-related costs. And I think that feels like a reasonable run rate for the fourth quarter. If we look into 2025, I think we're probably in the mid-$140 million for 2025 for the year, Terry. It's probably where we expect to be for the investments that we plan to make.

**Terence James McEvoy**
*Stephens Inc., Research Division*

And then the 11% annualized C&I loan growth, you talked about markets, but any specific industry or type of borrower that's behind that growth? Because it is stronger than what we're seeing across the industry at peer banks.

**Len D. Devaisher**
*President & COO*

Yes. As I think about some of the larger transactions, Terry, this is Len. In the third quarter, we saw a particular acquisition activity that we were able to support. So that's one. And then I'd say fairly balanced across -- Gary, I'm trying to think of others. Would you add any color there? I'm thinking about the acquisition in Twin Cities.

**Gary L. Sims**
*Senior VP & Chief Credit Officer*

Yes. And it was really geographically balanced as well. Twin Cities, Denver is where most of that growth came from, Len.

**Terence James McEvoy**
*Stephens Inc., Research Division*

Maybe one last quick one, if I could with, just commodity prices down and talks of tariff, what are your thoughts on the agricultural component of your loan portfolio as well as just ag-heavy communities or other sectors that are sensitive to ag and community.

**Gary L. Sims**
*Senior VP & Chief Credit Officer*

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Terry, this is Gary, and I'll start to answer the question. And if I miss anything from the rest of the team, help me out on that. One of the things that you would note about our ag portfolio, and that's the ag operating and farmland, is over the course of the past 5 years, we've really up-tiered our customer base and really are in a more resilient customer base than we were really 5 years ago. And what that means is that we have customers that, by and large, have better ability to weather market fluctuations, et cetera. The other thing to think about for our markets in Eastern Iowa is, we've experienced a very good yield -- crop yield cycle this year. So a lot of the pressure on prices will be offset by yield this year.

Now as we look to '25, cost inputs as well as price fluctuations will continue to be a concern in terms of impacting our customer base. But we feel about as good about our ag space as we have felt over that 5-year period of time, going into this more variables into the '25 crop year. Hope that helps some, Terry, give you a perspective.

I'll also touch on, you mentioned, markets that are impacted by ag. We certainly do have those markets that are heavy on the ag side. We feel similar about those marketplaces because of how we feel about the ag portfolio itself. And I'll stop talking and see if any of my colleagues have anything to add. And I'm getting shaking heads, so I think I covered it good, Terry.

**Operator**

Our next question comes from the line of Nathan Race with Piper Sandler.

**Nathan James Race**
*Piper Sandler & Co., Research Division*

Barry, I was wondering if you could just help us with a good starting point for earning assets in the fourth quarter. Obviously, a lot of dynamics on the balance sheet recently.

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

Yes, absolutely. Nate, give me one second. I think we're going to be at around -- for average earning assets for the fourth quarter, around $5.7 million would be a starting point, Nate.

**Nathan James Race**
*Piper Sandler & Co., Research Division*

Okay. Perfect. And it seems like the margin had some nice expansion this quarter, maybe more than we were anticipating to come out of last quarter. And I think with the capital raise and the balance sheet actions that you guys outlined recently, you were thinking like a 3.18% margin with everything that's been completed recently. Is that kind of a good starting point for the fourth quarter? Or do you think some of the improvement that was maybe a little ahead of the schedule from a margin perspective, maybe drive some upside to that 3.18% number that was laid out in the slide deck earlier last month?

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

Yes. A couple of things. I'll touch on there, Nate. The 10 basis points of margin expansion, we did have some loans in the third quarter go back to accrual. So that created some noise. But positive noise and that drove some of that expansion. But I do think, to your question, there is some upside with respect to the 3.18% that you referenced, Nate, for the margin for next year.

**Len D. Devaisher**
*President & COO*

Yes. I think, Nate, in Barry's prepared remarks, we spoke about 70 basis points, potentially 70-plus basis points on top of.

**Nathan James Race**
*Piper Sandler & Co., Research Division*

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Got you. And Barry, do you just have kind of the -- just going back to an earlier question, do you have kind of like the static NII impact from each 25 basis point rate cut or maybe on a basis point percentage as it relates to the margin.

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

I don't -- we haven't disclosed that, and I don't have that right in front of me, Nate.

**Nathan James Race**
*Piper Sandler & Co., Research Division*

Got you. I guess just what I'm getting at is, does the balance sheet still lean somewhat liability sensitive in terms of what you have repricing tied to the short end versus what you have on the other side?

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

Well, as we discussed earlier, Nate, I certainly think that what's happening with the shape of the yield curve with potentially getting some positive slope, we expect to see some opportunity for margin expansion if that continues.

**Nathan James Race**
*Piper Sandler & Co., Research Division*

Okay. Great. And it seems like you guys are still feeling pretty constructive on the loan growth prospects. I think in the past, we've been speaking to kind of the mid- to high single-digit range. Based on what you see out there today and, hopefully, a more kind of conducive macro environment and with all the talent that you have put in place recently, is that still kind of a reasonable expectation for 2025?

**Len D. Devaisher**
*President & COO*

Yes. Nate, this is Len. I think that's exactly the number that we've got our sights set on. I think the only -- and I -- we are seeing good pipeline activity that gives me confidence. I think probably the only moderating factor I see is we do have just some scheduled or expected CRE payoffs as projects fund up and mature and move off to the secondary market, which is, of course, how that business should work, and we've seen that happen. So that's the one headwind that I see, but mid-high singles are exactly where we've got our target set.

**Nathan James Race**
*Piper Sandler & Co., Research Division*

Okay. Just lastly, maybe one more strategic one for Chip. The increase in TCE was a little bit higher than what you kind of guided to when the capital raise was announced. And you guys will obviously be building capital at much stronger clips going forward with the improvement in the profitability profile. So just curious how you're thinking about allocating excess capital going forward? Are you guys still going to be largely internally focused? Or just any other thoughts on how capital may be managed, maybe between buybacks or looking for additional acquisitions?

**Charles N. Reeves**
*CEO & Director*

Yes, Nate, thanks. Really good question. I think right now, our focus is on, what I will call, execution, execution, execution, and what we stated in our capital raise investor presentation of bringing all of that, frankly, to the bottom line and doing that for the fourth quarter and into 2025. As you mentioned, we accrete capital on a much quicker basis. I do believe from a, let's call it, let's just go -- you mentioned TCE, let's go to CET1. We need to be moving that more into the, call it, 10.5% range.

And then, frankly, as we accrete capital, bring the expected performance to the actual performance that we anticipate. From there, I think we have the team and the platform to potentially consider M&A, but I

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think we'll also look at, is it stock buybacks, it is increased dividend, et cetera. So optionality, I think, is the name of the game post execution of this raise and post execution throughout '25.

**Operator**

Our next question comes from the line of Damon DelMonte with KBW.

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

Just wanted to touch on credit a little bit. We saw a nice decline in nonperforming assets this quarter. Just wanted to hear a little bit about some of the trends you're seeing regarding that and kind of maybe some movement between classified or watch list loans?

**Gary L. Sims**
*Senior VP & Chief Credit Officer*

Yes. Good deal, Damon. This is Gary, and I'll touch on it to begin that conversation. What you saw in the third quarter was really a continuation of identifying the assets as nonperforming and creating the resolutions to work them out. And we got -- we did get good movement in the third quarter on that regard. Back to my comments earlier about the ag space, one of the big movers in that list was a credit that we've been working on for probably 3, 4 years to work out of the bank, and we finally got paid off with the sale of farmland. So really, our resolution efforts coming to fruition. We're continuing down the path. You're going to continue to see resolution in the fourth quarter, nothing to report about specifically, but we anticipate that resolution activity continuing.

As you look at our classified and criticized assets, we had a material decrease in our classified assets. Again, that's identifying those assets and working to get them out of the bank. You did see a slight increase in our criticized. We did identify 2 credits in our book of business that we felt like had elements of potential risk, and we downgraded them to special mention. Between the 2 of them, one was $17 million, one was $21 million. So what that be, $38 million between the 2 of them. These were C&I credits, longtime customers. Both of them have been customers of the bank for over 2 decades.

We believe in their management team. We believe they have the ability to come out of this, but we did see potential weaknesses that caused those downgrades. So feel pretty comfortable with where we're at from a risk assessment perspective at this time, Damon. Hopefully, that helps.

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

That was great. Appreciate that color. And then how should we think about the reserve level at this point? If you continue to kind of work out some of the nonperforming loans, could we see a little bit of a release here in the reserve over the coming quarters?

**Gary L. Sims**
*Senior VP & Chief Credit Officer*

So one of the things you've probably noted, Damon, is we've stayed in that mid- to high 120s through the course of this cycle. We don't believe we have enough clarity on the cycle to really moderate that level of release -- I'm sorry, of reserve at this time. So we feel like we're going to be in that range for the foreseeable future, if that helps you, Damon.

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

It does. And then just a question on deposits and kind of the landscape of competition. How did most of your competitors react to the 50 basis point cut, and what does that tell you about upcoming cuts? Are people being aggressive in lowering us? Or are they -- the betas not necessarily 100%?

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

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Yes. What we observed, Damon, around some of the competition was that some of the folks really started front-running the expected cut in the month of September. And so we did not -- we didn't front run it, but we took action on the cut the week of, and so it seems to me as if folks are being fairly aggressive with respect to deposit pricing. And so we expect the betas to be, we were, what, around 40% beta on the way up. We think that we have an opportunity to achieve something like that perhaps on the way down. That's what we observed.

**Operator**

Our next question comes from the line of Brian Martin with Itau BBA (sic) [ Janney ].

**Brian Joseph Martin**
*Janney Montgomery Scott LLC, Research Division*

Just wanted to touch base on, Gary, those 2 credits that were -- you talked about, maybe can you just comment on what the industry is? And if those were some of the bigger credits at the bank? It seems like those were a little bit outsized in terms of size, but just in terms of just industry on the C&I side?

**Gary L. Sims**
*Senior VP & Chief Credit Officer*

Sure thing, Brian. The $17 million relationship is in the higher education space and the $21 million relationship is a gasoline retailer and wholesaler space. And so that's those two. They're not the largest credits that we have in our bank, but they are kind of at the high end of our, what I call, our sweet spot in terms of risk profiles that we like to maintain. And realistically, these are relationships, as I said, decades-old relationships with these customers, full relationships. We have their full relationship with depository, et cetera. So they're as close to house accounts as we come.

**Brian Joseph Martin**
*Janney Montgomery Scott LLC, Research Division*

Got you. Okay. That's helpful. And maybe just one for Barry. I know Chip mentioned the 70 basis point pickup. Just if we're thinking about -- it sounds like question earlier about the margin, it's probably -- maybe a touch better to start in if you just take the 70 basis points on the current level. And then I guess, Barry, just in context of that, I guess, if we don't see -- I guess, kind of the bull case and bear case, if we see the -- if we see the curve steepen, then margin ought to be expanding despite kind of the asset sensitivity, if you will. But if we don't see the steepening in the curve or as much, how does the margin play out in kind of that scenario?

**Charles N. Reeves**
*CEO & Director*

And Brian, what I'd say, too, that asset sensitivity is a parallel shock 200 basis points on both sides, right? So right, ultimately -- go ahead, Barry.

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

Yes. I guess can you clarify, Brian, what you're saying is if we don't get shortening on the front, is that what you're saying?

**Brian Joseph Martin**
*Janney Montgomery Scott LLC, Research Division*

Yes. I guess if you get the shortening on the front end, then obviously, you've got the expansion and kind of the more -- I guess, I'll call it the bull case, if you don't get that, and you reset to this 3.20-ish type of level, how would you anticipate kind of the margin playing out with that scenario?

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

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Well, I mean, that would suggest, it sounds to me, Brian, like somewhat of a flat yield curve, which I think presents challenges to all banks, including ours. But I think with respect to -- we still have good opportunity for asset repricing -- asset repricing higher. And so I don't know, I think that there's -- it's a challenging question to answer, but I think that there's still some opportunity there with respect to just on the asset repricing side, Brian, for us.

**Charles N. Reeves**
*CEO & Director*

Brian, this is Chip. Ultimately, what you're asking is the environment that we're just coming from, and you've seen our NIM inflect and increase over the last few quarters. Now it's increased at a slowing pace, but we still believe no rate cuts, but at least stays where it is, we have enough repricing opportunities that we frankly expand margin.

**Brian Joseph Martin**
*Janney Montgomery Scott LLC, Research Division*

Got you. And Barry, can you just remind us the repricing that you have available? Kind of where -- how much is that? And then just kind of what is it coming off at?

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

Yes. On the loan side, Brian, we've got about over the next 12 months around $375 million of repricing, and that's coming at 4.38% average rate on that?

**Brian Joseph Martin**
*Janney Montgomery Scott LLC, Research Division*

Got you. Okay. And kind of the resetting rates today are kind of the...

**Len D. Devaisher**
*President & COO*

Yes, I was going to say -- pardon my interruption, Brian, but I'm just looking at weighted averages of commercial production. And we -- with the rate changes, we've seen a little shift. But as I look at the third quarter, we started the quarter weighted average just above 8. We ended the quarter in the high 7s. So that's what we're seeing. So you can see the asset reprice that Barry is talking about. That's the upside we see.

**Brian Joseph Martin**
*Janney Montgomery Scott LLC, Research Division*

Got you. And maybe just last 1 or 2, just on the fee income side. It looked like some nice traction in the SBA business this quarter. And just kind of thinking about the sustainability and just how you're thinking about that going forward along with other businesses you've kind of gotten into. Can you provide any thoughts on just kind of the outlook there on SBA going forward?

**Len D. Devaisher**
*President & COO*

Yes, Brian, this is Len. I think I see that continuing to be and expect that to be a continuing contributor at this kind of level. What I would say is that's a platform we've -- as we talked about in our strategic plan, we've done what we said we're going to do. We've invested in the platform in terms of talent, including an addition in the last quarter. And so that's something that we're very focused on to continuing that as a key driver for us.

**Brian Joseph Martin**
*Janney Montgomery Scott LLC, Research Division*

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Got you. Okay. That's super helpful. And maybe just last big picture for Chip. Chip, you talked just about the improving the profitability and the profile of the bank. I mean, I guess, with the capital raise and kind of things behind now as you kind of look at 2025, can you just talk about how you're thinking about ROA and kind of maybe where it shakes out, whether as you get later in the year, full year, however you can frame, how you're thinking about your outlook for '25 would be great.

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

Yes. Ultimately, we ended up disclosing some of this in our capital raise as well in the investor presentation. I mean, ultimately, as we see '25 evolve, I think we'll be above 1% and with the possibility of moving to ending Q4 is about the 110% range.

**Brian Joseph Martin**
*Janney Montgomery Scott LLC, Research Division*

Got you. Okay. perfect. This was just, I guess, checking on that, given kind of the deal was upsized, maybe a little bit more and better than you're thinking currently trends were. So okay. I appreciate the update.

**Barry S. Ray**
*Senior Executive VP, CFO & Treasurer*

Thanks, Brian. Appreciate it.

**Operator**
Thank you for your questions. There are no additional questions waiting at this time. That concludes today's call. Thank you for your participation, and enjoy the rest of your day.

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