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Earnings Call

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the MidWestOne Financial Group, Inc. Second Quarter 2025 Earnings Call. [Operator Instructions] As a reminder, this call is being recorded. I would now like to turn the call to Barry Ray, Chief Financial Officer of MidWestOne Financial Group.

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.

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. Good morning, and we appreciate everyone joining for this quarter's call. Today, I'll provide a high-level overview of our second quarter results as well as highlights regarding the continued execution of our strategic initiatives. Len will provide an update on our lines of business, and Barry will conclude with a more detailed review of the second quarter.

Let's turn first to the positives. Due to the expertise of our MidWestOne bank team, we continue to execute well on our 2025 strategic initiatives. Disciplined balance sheet management, solid loan growth of 7.4% and back book loan repricing led to a 13 basis point expansion in our tax equivalent net interest margin and 5% linked quarter net interest income growth.

Based upon third quarter pipelines and business activity mid single-digit loan growth remains our expectation for the second half of 2025. Our relationship-focused fee income businesses, which are part of our strategic plan road map, performed well in the second quarter with wealth management revenues up 5% linked quarter and SBA originations and gain on sale exceeding expectations.

We also remain committed to building out the talent base to become a consistent, high-performing company. The second quarter saw a significant new commercial banker hires in the Twin Cities and Denver and wealth management hires in the Twin Cities. Len will speak further about these initiatives and the expected organizational impact.

Even as we invest for the long term, we remain focused on our expense discipline, and we are pleased with our second quarter noninterest expense results. Asset quality and net income were impacted by a single $24 million Twin Cities suburban CRE office loan originated in June 2022 and previously classified that moved to nonaccrual in the quarter.

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A receiver has been put in place, resolution actions have commenced and a specific reserve established, which increased our allowance for credit losses ratio to 1.50% and significantly increased our quarterly credit loss expense. Outside this loan, asset quality metrics generally improved in the quarter, with a criticized asset ratio decreasing 32 basis points and net charge-offs of only 2 basis points.

We completed a third-party review of CRE office loans greater than $1 billion, and there is 100% risk rating concurrence. We view this loan while large as an isolated issue. Thank you to our team members who continue to take outstanding care of our customers and welcome new relationships to MidWestOne. I'm encouraged by the strength we are building in our balance sheet, our capital position and our underlying earnings momentum which position this company well for the remainder of 2025. Now I'd like to turn the call over to Len.

Len D. Devaisher
President & COO

Thank you, Chip. Let's start with deposits. End-of-period deposits were down slightly, while average deposits were flat. We are pleased to see noninterest-bearing balances in the quarter ahead of both the linked quarter and the year ago quarter. Our deposit pipeline has picked up with some of the talent additions that Chip mentioned, and we continue to focus our efforts on commercial and consumer deposit segments with a disciplined approach to public funds bids.

As we anticipated, loan growth picked up in the second quarter with strength in C&I lending offsetting small declines in ag and CRE. We also benefited from solid momentum in home equity lending from our consumer franchise. As Chip mentioned, we continue to forecast mid-single-digit loan growth in the second half of the year, noting that this quarter showed the focus on organic loan growth with commercial loan production of $215 million, the highest production we've seen in the last 6 quarters.

Just like deposits, the loan pipeline is also benefiting from our recent talent additions. In terms of our fee businesses, we saw strength from wealth management up on a linked quarter and year-over-year basis, SBA, treasury management and momentum in mortgage with resi loan production up 20% year-over-year.

You'll recall that the SBA vertical was one of the focused initiatives in our strategic plan and we see that bearing fruit. Year-to-date, SBA fee income is double the same period last year, and MidWestOne is now in the top 10% in the nation on the fiscal year-to-date SBA 7(a) production.

Speaking of executing on our strategic plan, the commercial and wealth hires in the Twin Cities and Denver represent deliberate and opportunistic expansions with experienced bankers who are hitting the ground running, introducing new opportunities for us to deliver sound, profitable growth. With that, I'm pleased to turn the call over to Barry.

Barry S. Ray
Senior Executive VP, CFO & Treasurer

Thank you, Len. Starting with the balance sheet on Slide 11. Total assets declined slightly from March 31, 2025, as decreased cash balances and lower securities volumes were only partially offset by increased loan volumes. Len covered the loan and deposit changes, so I'll touch on shareholders' equity, which increased $9 million from March 31, 2025, to $589 million due to a $5 million increase in retained earnings and a favorable $6 million adjustment to accumulated other comprehensive loss, partially offset by a $1 million increase in treasury stock.

The company's consolidated CET1 ratio was 11.02% at June 30, 2025, up 5 basis points from March 31, 2025, reflecting somewhat muted growth due to higher credit loss expense recognized during the second quarter.

Turning to the income statement. On Slide 13, we reported net income of $10 million or $0.48 per diluted common share. Net interest income increased $2.5 million in the second quarter to $50 million as compared to the linked quarter, due primarily to higher earning asset volumes and yields as well as lower funding costs, partially offset by higher funding volumes.

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Loan interest income in the second quarter of 2025 included $1.1 million of loan purchase discount accretion compared to $1.2 million in the linked quarter. Our tax equivalent net interest margin, core net interest margin, which excludes loan purchase discount accretion, both expanded 13 basis points to 3.57% and 3.49%, respectively, in the second quarter.

The increase in core net interest margin was due primarily to expansion in core earning asset yields of 12 basis points, coupled with a 2 basis point decline in the cost of interest-bearing liabilities. The core loan portfolio yield for the second quarter was 5.70%, an increase of 10 basis points from the linked quarter, while the average yield on new loan originations during the second quarter was 6.76%.

On the liability side, the cost of interest-bearing deposits decreased 2 basis points from the linked quarter to 2.29%. Noninterest income in the second quarter of 2025 was $10.2 million compared to $10.1 million in the linked quarter. Adjusting for securities gains and losses and mortgage servicing right valuations, noninterest income was up $200,000 due to increases in our wealth management business, card revenue, mortgage origination fee revenue and SBA gain on sale revenue compared to linked quarter.

Finishing with expenses, total noninterest expense was $35.8 million in the second quarter, a decrease of $0.5 million from the linked quarter. Driving the improvement was the receipt of $1.1 million in tax credit funds related to the employee retention credit which was recognized as a reduction to compensation and employee benefits as well as a $200,000 decrease in core data processing expense.
Partially offsetting these favorable decreases were increases in equipment primarily driven by increased software license expense and marketing, primarily driven by increased online advertising and direct mail campaigns. Given recent talent investments, we are revising our 2025 annual expense guide to a range of $146 million to $148 million. 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 today will be from the line of Brendan Nosal with Hovde Group.

Brendan Jeffrey Nosal
Hovde Group, LLC, Research Division

Maybe just starting off here on growth for the quarter. Like C&I growth looked particularly strong. Could you just unpack this quarter's C&I growth, whether it was new credits or line draws, any noteworthy industries? And then what regions were really contributing to that?

Charles N. Reeves
CEO & Director

Yes, Brendan, this is Chip...

Len D. Devaisher
President & COO

I can give you some color on that. And what is encouraging to me is I am seeing and we are seeing what I like to call the Allscate. And what I mean is really contributions across the footprint. So I see as I look bankers in Denver, bankers in Twin City, bankers in community and bankers in our Iowa metro markets.

And in terms of industry, we definitely see distribution, I see manufacturing and both B2B and B2C type segments. And there's a mix of existing nameplates and new nameplates. So another thing that we feel good about. The CRE production was softer in the second quarter, the CRE that I'm seeing is more owner-occupied, but you saw our CRE balances fall back a little bit. We had some multifamily and one hotel loan that paid off and went to the secondary market, the way we expect and so forth. And so we've got some capacity there as I look ahead.

Brendan Jeffrey Nosal
Hovde Group, LLC, Research Division

Okay. All right. Great. That's helpful color. One more for me. Maybe turning to the margin. I think you said last quarter, at the time you saw continued opportunities to drive the core margin higher. We certainly saw that play out this quarter. Just kind of curious for your updated thoughts for the back half of the year and whether you can continue to work the core margin higher into year-end and then just speak to some of the drivers there.

Barry S. Ray
Senior Executive VP, CFO & Treasurer

Yes. Thanks, Brendan. We were very pleased with the 13 basis points of net interest margin expansion in the second quarter. We believe there still continues to be opportunity. I'm going to stick with the grind higher on the net interest margin and what's going to be driving that and is not too terribly different than what we experienced in the second quarter is going to be new loan originations at higher coupons, back book repricing probably -- principally on the asset side for the margin expansion and then perhaps some continued benefit on the funding side as the time deposits continue to reprice at lower costs. Those would be the thoughts on the margin and the drivers of it, Brendan.

Operator

Our next question today will be from the line of Terry McEvoy with Stephens.

Terence James McEvoy
Stephens Inc., Research Division

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The market's a bit surprised with that one loan, which was about 20% of your nonowner-occupied office CRE. I guess the direct question is what happened? Was it just wrong building, wrong location, originated at the wrong time? And maybe as a follow-up, could you just go through any other larger credits within CRE? I know on Page 8, you look at the nonowner-occupied office but any other larger loans, that would be helpful.

Gary L. Sims
Senior VP & Chief Credit Officer

Terry, this is Gary Sims. I'll start the conversation and then ask my teammates to add in if I miss anything. We'll start with that larger loan as we identified, it is a nonowner-occupied office in suburban, Minneapolis. We did originate it in '22. And currently, the property is 85% occupied.

There is rollover risk in 2025 that will -- could take it to 65% occupied. But the property is actually cash flowing as it exists today. However, it was rated substandard nonaccrual at the beginning of the quarter. As we went into the quarter, we stopped getting paid, which indicated to us that the sponsor was not utilizing the funds that they were receiving to make our payments.

So we took decisive action to start the legal process to get control of that asset, started the receivership process and felt like that necessitated taking it to nonaccrual. So that's kind of the background on that particular asset. As you note, it is the largest asset in the office portfolio.

As you go down the office portfolio, the next large asset is a $12 million asset that is in downtown Minneapolis, it is pass rated, good occupancy, good cash flow and a good sponsor. And then we also identified in our investor materials, the additional office assets that we've identified as substandard, the largest of that being an $8.2 million asset that we do have substandard accrual, it is current and do have a sponsor that is supporting it on an ongoing basis. I'll stop for a minute, see if that gives you some good color on the portfolio and also ask my teammates if they have anything to add.

Charles N. Reeves
CEO & Director

Terry, any follow up question on that one?

Terence James McEvoy
Stephens Inc., Research Division

Yes. No, no. Great color.And then maybe as a follow-up, the expenses were $146 million to $148 million. Maybe talk about, I think you call it operational efficiencies, where you're investing there as well as additional hires. And it sounds like you had an active Q2 on the hiring front.

Charles N. Reeves
CEO & Director

Terry, we've got a few things going on there. This is Chip. So on the hiring front, we're able to bring over a team on the C&I side of the business from -- in the Twin Cities from some, what I'll call, just M&A disruption in that marketplace. We also brought over a few wealth individuals in that marketplace. And at the same time, we also hired a new region president in the Denver marketplace, also from some M&A disruption in that city.

So overall, very active on the talent acquisition, talent investment standpoint. And then some of the major projects on the technology initiative side, we continue with what internally we call OneConnect, but ServiceNow, which is an end-to-end workflow management system for the back office in October.

We have a new commercial digital banking platform that will be rolled out to our customer base. And then we're doing a heck of a lot of business automation internally now as well. So I think for the most part, we've been able to cover what I'd say are investments just through gaining more efficiencies.

And then the revised guidance that Barry gave probably up, I think, about $1 million in terms of the range is really from the talent hires that we did in the Twin Cities marketplace.

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Operator

The next question will be from the line of Damon DelMonte with KBW.

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

So just talk a little bit about credit and kind of outside of the events in this quarter. As we kind of think about provisioning going forward, and kind of given the continued optimism in loan growth. Barry, just looking for a little color on kind of how you think about the provision over the back half of the year?

Barry S. Ray
Senior Executive VP, CFO & Treasurer

Yes. I expect provision expense to go down to more, I'll call it, normalized levels in the back half of the year. Damen, certainly, our allowance coverage ratio reflected the one single CRE credit. So as we get resolution on that credit. I expect the coverage ratio to go back down to our more historical levels in the 120% range, and we believe we have a good ring-fence on the loss on that loan.

So I think credit loss expense will be very much more like historical levels, Damon.

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

Okay. All right. Helpful. And then on the the securities portfolio...

Charles N. Reeves
CEO & Director

Damon, I'd also say -- I'm sorry, Damon, this is Chip. What I'd also say is the specific reserve that increased our credit loss expense with the CL loan. It's -- I would say that it's likely or potentially expected that as the receiver that's in place gives us some more detailed information and begins to have some conversations with the tenants here in the third quarter. We'll likely be in a position to reflect the charge-off likely in the third quarter of that, too. So the asset, it will not be ROS completely resolved at that point, but I think we'll be in a position to likely take the charge-off.

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

Got it. So basically, you're sort of in like price discovery mode where you'll get a better handle on things and you can kind of get rid of a portion that you need to.

Charles N. Reeves
CEO & Director

Yes, we have an updated appraisal on an as-is basis that describes it as a distressed property. So we think we've been conservative in our credit loss expense adjustment. We believe we have it all. But I would say we will know complete information here in the third quarter, but I do believe we have it all.

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

Okay. Great. And then on the securities portfolio, this quarter, average balances came down. Do we kind of expect that to kind of hold steady? Or do you think more cash flow runoff will just be redeployed into loans?

Barry S. Ray
Senior Executive VP, CFO & Treasurer

Yes. Part of that will be driven by what's happening on the deposit side, Damon. But yes, I mean, right now, what we are is redeploy those cash flows into loans. And so to the extent that the deposit growth picks up relative to loan growth, I would expect to invest those into the securities portfolio. So it's going

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to be a function of what's happening on the deposit side. But I would say probably continued runoff with respect to remixing into the loan portfolio.

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

Okay. Great. And then just last quick question here on the tax rate, Barry. I think this quarter was lower than the first quarter. So how do we think about it for the back half of the year?

Barry S. Ray
Senior Executive VP, CFO & Treasurer

Yes. Thanks, Damon. We expect our tax rate for the year to be around 22%. So higher than what we were in the second quarter that reflected an annual effective tax rate adjustment, but we expect to be at 22%, Damon.

Operator

The next question today will be from the line of Nathan Race with Piper Sandler.

Nathan James Race
Piper Sandler & Co., Research Division

Going back to some of the hires that you've made in the quarter. Curious on a couple of fronts. One, are there any noncompetes or nonsolicits in place? Can these folks just kind of start producing out of the gates? And then also, how do you kind of see these hires kind of impacting kind of the franchisees long-term, both near- and long-term growth outlooks?

Len D. Devaisher
President & COO

Nate, this is Len. I'll talk about that. What I would tell you is because these are really seasoned and established bankers in the market. We -- there's a lot of relationships that they have developed across the years. And so we feel good about their ability to not be on the sidelines, but to be on the field immediately.

And what I would tell you in terms of impact is these hires are specifically in the commercial and wealth segments. Those things tend to have a bit longer sales cycle. So I think the real impact, I think, is probably more in '26 than in '25, but I can tell you they've hit the ground running.

Nathan James Race
Piper Sandler & Co., Research Division

Okay. Great. And Barry, I apologize for the analyst modeling question, but I was hoping you can maybe just kind of narrow your margin expectations for the back half of this year. It sounds like the buy is up, but not probably to the same degree we saw this quarter. So just curious how you're thinking about the margin as long as the Fed remains on pause, likely in the third quarter. And then how you think about the margin responding to maybe a 25 basis point cut at some point in the future?

Barry S. Ray
Senior Executive VP, CFO & Treasurer

Yes. Thank you, Nate. Yes, I certainly -- I'm not expecting the 13 basis points of margin expansion that we got in the second quarter, not necessarily where we're thinking the second half of the year, probably somewhere in the 4 to 5 basis points per quarter is what we expect based upon what we see. We do have -- that expectation does contemplate 225 basis points cuts to the Fed funds target in the second half of the year, really in the fourth quarter mostly. So that's kind of how we're thinking about it. So not quite the magnitude of expansion that we saw in the second quarter, Nate.

Nathan James Race
Piper Sandler & Co., Research Division

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Okay. Great. That's really helpful. And then maybe one last one for Chip. It seems like this credit event in the quarter was pretty idiosyncratic. And outside of that, you guys should be building capital nicely going forward, which is a good problem to have. So just curious what the appetite is for buyback these days relative to continue to support organic growth or other kind of inorganic opportunities that could arise.

Charles N. Reeves
CEO & Director

Great. Thanks for the question, Nate. And I agree. So we -- CET1, and I'll stay on probably CET1, our range that we've communicated previously is our target range of 11% to 11.5%. We just edged over that with the second quarter results, I think 11.02%. Obviously, with the stock reaction here today, and we were active in the market in the June time frame with that some purchases.

I would say that kind of first and foremost for this quarter, we'd be supportive of our stock, especially at the levels that we're seeing this morning. And for whenever we believe it's below intrinsic value, we'd likely be in the market. And then I would move to support the dividend.

And then the last one, Nate, is I've run around our institution and spoken to many analysts and institutional investors saying, bigger is not better, better is better. And when we get better, then we'll get bigger, our underlying performance is getting much, much better.

Our infrastructure is ready. And so as we continue to perform here over the second half of the year, we're beginning to have some dialogue on the M&A front. But ultimately, we'll be focused on performance here in the third and fourth quarter.

Operator

[Operator Instructions] The next question will be from the line of Brian Martin with Jenny.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Most of my stuff was kind of answered there. But just -- Barry, just remind me on the loan repricing and the bond repricing, how much of that you see over the next 12 months? Just with the securities possibly being redeployed into loans, just -- can you talk about the size of that securities portfolio relative to assets over time that you kind of think about where that trends to? I think where it's at today versus where maybe the next 12 to 18 months out where you see that drifting to?

Barry S. Ray
Senior Executive VP, CFO & Treasurer

Certainly, Brian. To your first part of the question, the loans that are repricing over the next year, we've got $418 million of fixed rate loans with a weighted average yield of 4.61% that are repricing over the next 12 months.

We've got another $180 million of securities cash flows over the next 12 months. With respect to the portfolio itself, it's around 20% of assets is what we're targeting, and we're close to right around that right now. And so I would expect a 15% to 20% range is probably where we would target for the size of the portfolio, Brian.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Got you. Okay. That's helpful. And then how about just on the ship on -- or I guess, whomever on the gain on sale, the SBA revenue, can you just remind me what it was year-to-date? And it looked like it was stronger at least last year in the second half of the year.

Just wondering kind of year-over-year, I guess, do you expect a pickup in performance in in the second half. So the growth is year-over-year growth stronger in second half of this year versus last year? Or is that -- maybe I have that number wrong. So just if you can clarify the SBA contribution.

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Charles N. Reeves
CEO & Director

So SBA contribution, Brian, I mean, what we're budgeting, targeting and where we've been here in the first half, likely to be kind of in the second half, too, is around $500,000 or so a quarter of SBA gain on sale. And as you know, sometimes that business could be lumpy. But over the course of 2025, I think it will end up being about that $2 million or so gain on sale.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Okay. And what was it in the first half of the year, Chip, ballpark?

Charles N. Reeves
CEO & Director

I think Barry is going to look that one up here for you, Brian, and see how quickly...

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Yes, that's fine. Yes, I can even follow up offline. No big deal. And just your thought on kind of the greatest opportunity, Chip, today in terms of the fee income businesses and the opportunities there.

Where is the biggest upside to that the baseline level of fee income today when you look at the next 12 to 18 months?

Charles N. Reeves
CEO & Director

I'm highly encouraged with our Wealth Management business at right now, Brian. And -- so it was up 5% linked quarter. We continue to make strides there, both in kind of what I'll call operating model platform as well as talent. And so in the quarter, we've been able to establish a much more efficient, what I'd call, small account customer platform and then our new originations in terms of new clients of assets under management coming to the institution.

I think the most recent I saw was 55% to 60% of our new clients were bringing greater than $3 million of assets under management to us. That bodes well for us as we move into the future as well. And then again, Steve Himmerman joined us from Northern Trust in January of last year to run that business for us, and I think we're making some terrific strides. So that is one that we're highly optimistic about and enbridge by over -- in a long-term fashion, Brian.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Got you. And Brian...

Barry S. Ray
Senior Executive VP, CFO & Treasurer

Year-to-date SBA is $860,000.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

$860,0000. Okay. I appreciate that. And then just last one, Chip, was on the M&A side. If you talk about better is better. I guess if you look at a potential target, what's important today to better, I guess -- or what are the priorities on if you do look at M&A, what -- is it more -- just size? Is it geography? Is it a business line? Kind of what are the priorities there? And if you can just remind us of the size of potential targets? Is it something you'd rather do a couple of small deals? Would you rather do a larger transaction? .

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Charles N. Reeves
CEO & Director

Yes. I think we've been pretty consistent in stating there. As we begin to explore, Brian, what I'd say is from a map, the geography and the map is very important to our institution. And ultimately take I-35 from the Twin Cities on down to Kansas City, I-80 from the Iowa border on -- through Iowa into -- it goes through Omaha, and then you ultimately move through the rest of Nebraska, take a left-hand turn and you're in Denver.

We have plenty of geography for $6.2 billion or $6.3 billion in assets. We need to get deeper into some of that geography. So that would be the map size-wise, $500 million to probably a max of $1.5 billion to $2 billion or so in size. We'd like it to be digestible for us.

And then somehow the franchise that we would partner with would need to make us better. And does it make us better in terms of essentially density within that map? Or do they have business lines that can be accretive to us and those -- and then the math must work for us as well.

And then the last one, obviously, has to be management and -- sure. So those are the things that we are beginning to look at those are the conversations that we're beginning to have. And what I'd say is third quarter, especially. We are going to prove that this underlying earning momentum is more visible than it was here in the second quarter. And then perhaps we'll be to turn attention to potentially getting a little bit larger.

Len D. Devaisher
President & COO

And Brian, I'm just going to -- Go ahead.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

And then...

Len D. Devaisher
President & COO

Brian, yes, pardon my interruption. I just -- I think I heard you ask about year-to-date SBA that barrier, but you asked for a comparative, and I just pulled that up. So year-to-date, '25 was the $860 million number and year-to-date '24 was $430 million. So that sort of gives you a relative sense of traction there.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Got you. Okay. And last one just on your comment, Chip, it sounds like the M&A is likely to get that ROA up to your barometer of 10 plus exiting the year before you would think about doing something on that front? Is that still seems kind of the way to think about potential M&A?

Charles N. Reeves
CEO & Director

Well, Brian, I'd say here is, ultimately, if you move our credit loss expense to just what consensus was today versus obviously the heightened level because of the isolated credit issue. If you just use consensus we were probably between 105 and 110 ROA here in this quarter.

So we are producing -- our underlying earnings momentum is at our targeted levels and probably at what we have communicated to our analysts and our investment community. So I'm getting pretty comfortable with this organization in terms of being M&A ready. However, I do believe we need to perform in the third quarter and continue to prove such

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

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Yes. Okay. That's what I was getting at. It sounds like the underlying performance was really good was good enough and it just like an isolated incident here.

Operator

This concludes Q&A, and I will now hand back to Chip Reeves for closing remarks.

Charles N. Reeves
CEO & Director

Thanks, everyone, for joining today's call. And despite the isolated credit issue that we've discussed, I am truly pleased with the continued transformation of our company and our strong balance sheet, capital position and underlying earnings momentum really do position us well for the second half of this year and then as we move into 2026. Thank you all for joining today, and have a good afternoon.

Operator
This concludes the MidWestOne Financial Group, Inc. Second Quarter 2025 Earnings Call. Thank you for joining. You may now disconnect your lines.

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