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October 28, 2013

Yvonne Sparks
Community Development Officer
Federal Reserve Bank of St. Louis
P.O. Box 442
St. Louis, MO 63166-0442
Yvonne.s.sparks@stls.frb.org

RE: Application of Midland States Bancorp, Inc. to acquire Heartland Bank

Dear Ms. Sparks,

I am writing on behalf of Woodstock Institute to express our concern regarding the acquisition of Heartland Bank of St. Louis, Missouri by the Midland States Bancorp of Effingham, Illinois. We urge the Federal Reserve Bank of St. Louis to carefully consider how the proposed acquisition would create a public benefit, especially for low- and moderate-income (LMI) communities and communities of color that historically have been denied access to financial services. We are concerned that Midland States Bank is not currently meeting the needs of LMI communities and communities of color and respectfully request that the Federal Reserve Bank of St. Louis delay approval of the acquisition until a clear public benefit can be shown and the fair lending complaint filed against the bank by the Metropolitan St. Louis Housing Opportunity Council is resolved by the Department of Housing and Urban Development.

About Woodstock Institute

Woodstock Institute is a leading nonprofit research and policy organization in the areas of fair lending, wealth creation, and financial systems reform. Woodstock Institute works locally, statewide and nationally to create a financial system in which lower-wealth persons and communities of color can safely borrow, save, and build wealth so that they can achieve economic security and community prosperity. We conduct research on financial products and practices, promote effective state and federal policies, convene a coalition of community investment stakeholders working to improve access to credit, and help people use our work to understand the issues and develop and implement solutions.

Background

For nearly 50 years, U.S. law has required prudential regulators to consider the public's interest when approving bank mergers and acquisitions. Section

225.24(a) (iii) of Regulation Y specifically states that every applicant has a duty to state the public benefits that can reasonably be expected to result from the acquisition. Assessing both the institutions' past records of serving classes protected under the Equal Credit Opportunity Act and underserved borrowers and communities indicates how well the merged institution will address public needs going forward.

Woodstock Institute is concerned that the acquisition of Heartland Bank by Midland States Bank will not result in a clear significant public benefit, specifically for LMI communities and communities of color. If approved, the acquisition of Heartland Bank would be the ninth acquisition for Midland States since 2007. Despite its growth throughout Illinois, Midland States' lending and service record does not demonstrate a commitment by the bank to lend to traditionally underserved populations and communities. The following analysis of 2011 and 2012 Home Mortgage Disclosure Act data, small business lending data, and branching data indicates the bank's lack of performance in lending to LMI communities and communities of color.

Home Lending to Low- and Moderate-Income Families

Midland States Bank underperformed its peers in home lending to LMI communities in Illinois and St. Louis in 2011 and 2012:

- Midland States and its peers did not make a single HMDA-eligible loan in low-income census tracts in Will County in 2011. While peer lending went up in this category in 2012 to 0.5 percent of their loans, Midland States again made zero loans. The 2010 Census indicates that 3.66 percent of Will County's population lives in low-income census tracts.
- Midland States made zero loans to low-income borrowers in Will County in 2011 and 2012 while its peers made 6.7 percent of their loans to low-income borrowers in 2011 and 6.8 percent in 2012.
- In Champaign County in 2011, Midland States made 3.7 percent of its loans in low-income census tracts while its peers made only one percent of loans in those areas. In 2012, however, Midland States' lending in low-income tracts dropped to 2.64 percent while its peers increased to 3.01 percent
- In St. Louis, Midland States also fall significantly behind its peers in lending to LMI communities. In 2011, six percent of its home loans went to low-income borrowers as compared to 7.8 percent from all lenders. In 2012, Midland States made 6.5 percent of its loans to low-income borrowers while its peers made eight percent. (Heartland Bank outperformed Midland States and its peers with 10.11 of its loans going to low-income borrowers in 2011 and 10.03 percent in 2012.

Home Lending to Communities of Color

Midland States Bank's home lending to communities of color, particularly African American communities, falls far below its peers in all of its markets:

- In 2011, Midland States originated only three loans to African American borrowers in its entire market, which represents 0.4 percent of its total lending. In 2012, the number increased to 10 loans but still represents only 0.8 percent of its total lending volume.

- In Champaign County, 12.23 percent of households are African American but Midland States made zero loans to this cohort in 2011, while all lenders made 3.9 percent of their loans to borrowers in this cohort. In 2012, Midland States increased its percentage to 1.5 but still fell below its peers who made 3.3 percent of their total loans to African American borrowers.
- In Will County, Midland States made zero loans to African American borrowers in 2011 and 2012. All lenders in aggregate made 3.9 percent of their loans to these borrowers in 2011 and four percent in 2012. Midland States also made zero loans to Asian Americans in both 2011 and 2012 while its peers made 6.8 percent of their total loans to that category of borrowers each year.
- In St. Louis, Midland States again made zero loans to African American borrowers in 2011 while its peers in aggregate made 4.5 percent of their loans to African Americans. In 2012, Midland States made one percent of its home loans to African Americans while all lenders in aggregate made 4.6 percent of their loans to that category of borrowers. Given that African Americans account for 22 percent of the St. Louis Metropolitan Area, Midwest States' low numbers are particularly concerning. Heartland Bank far outperformed its peers in both years, with 7.12 percent of its home loans going to African Americans in 2011 and 6.92 percent in 2012.

Small Business Lending

Midland States Bank showed significant improvement in its small business lending between 2011 and 2012. We commend it for its improvement and encourage further gains in this area going forward. Gains in Will County would be particularly relevant given that businesses with revenue below \$1 million make up 71.6 percent of the small business market but only 36.7 percent of Midland States' small business loan borrowers (as compared to its peers who issued 41.8 percent of their loans to that cohort.)

It is also important to note that none of Midland States' 33 full- or limited-service branches are located in low-income assessment areas and only two are located in moderate-income assessment areas. Midland has zero branches in census tracts where more than 50 percent of the population is a minority while almost half of its branches are located in tracts where minorities make up less than 10 percent of the total population.

Recommendation

Given the serious need for Midland Bank to improve its lending to LMI communities and communities of color, it is even more important that a true public benefit be articulated before this acquisition is approved. We believe Midland States has an obligation under the Bank Holding Company Act to provide a detailed explanation of its plan for truly meeting community needs and we respectfully urge the Federal Reserve Bank of St. Louis to delay approval of this acquisition until all fair lending complaints are resolved and until a public benefits commitment with measurable goals and benchmarks is proposed. This commitment should include methods for improving performance through marketing and lending in underserved communities, partnering with community organizations, and offering products that meet community needs. We would also encourage the Federal Reserve Bank of St. Louis to set clear targets for improving

Midland States' mortgage lending to LMI communities and communities of color and require public progress reports be published on an annual basis.

Thank you for the opportunity to comment on the proposed acquisition. We are very happy to discuss the issue further.

Sincerely,

Dory Rand,
President, Woodstock Institute
Chicago, IL