

November 16, 2021

Ms. Elizabeth Risch
On behalf of SLEHCRA and NCRC
Metropolitan St. Louis Equal Housing and Opportunity Council
1027 South Vandeventer Avenue, 6th Floor
St. Louis, Missouri 63110
erisch@ehoc-stl.org

Mr. Horacio Mendez
President and Chief Executive Officer
Woodstock Institute
67 East Madison
Suite 2108
Chicago, Illinois 60603
hmendez@woodstockinst.org

Dear Ms. Risch and Mr. Mendez,

First Mid Bancshares, Inc. (“First Mid” or “the Bank”) is in receipt of your letters, both dated October 18, 2021, as provided to the Bank by the Federal Reserve Bank on or about November 4, 2021. Your letters concern the Federal Reserve Bank’s consideration of the First Mid’s application to acquire the operations of Delta Bancshares and its subsidiary, Jefferson Bank and Trust Company, in St. Louis, Missouri (“Jefferson Bank”).

At the outset, I will note that it was disappointing to receive two separate letters written to the Federal Reserve, given First Mid’s ongoing cooperation with each of you. Your organizations jointly approached the Bank a few months ago about the merger application. In the many communications and two meetings since that time, you have been clear that your organizations are working in cooperation with one another. For that reason, and despite the two separate letters you wrote, the Bank responds to your October 18 letters together.

As for the content of your letters, I want to begin by emphasizing two points. First, throughout its 156-year history, First Mid has been committed to complying with the letter and spirit of all fair lending laws. That commitment remains strong today. Second, I understand the concerns raised in your letters and, while I disagree with the conclusions reached in the single analysis that supports them, First Mid is in the process of redoubling its efforts to enhance its lending to underserved communities. To that end, as you know, the Bank has been in cooperative and voluntary discussions with your organizations about enhancements it can make to its operations.

First Mid’s History and Compliance with Fair Lending Law

First Mid’s mission is to fulfill the financial needs of its communities with exceptional personal service, professionalism, and integrity, and deliver meaningful value and results for customers and stakeholders through its Commitment to Community program. The Bank’s historical focus and expertise has been in small business and agricultural lending. In fact, approximately 75% or more of the Bank’s historical lending has been for business

loans and farm loans. The Bank's residential mortgage loans generally have been ancillary offerings to its commercial loan clients.

In its most recent Community Reinvestment Act Performance Evaluation, which occurred in 2018, First Mid received an "outstanding" rating in connection with its lending activity. As the Office of the Comptroller of the Currency ("OCC") determined,

[First Mid] is a leader in making community development (CD) loans. During the evaluation period, First Mid provided \$191.8 million in CD loans. A majority of these loans supported economic development or revitalization and stabilization of low-income, moderate-income, or distressed middle-income geographies. First Mid also offers a number of flexible lending programs and serves as a leading Small Business Administration (SBA) lender.

The OCC further noted, "First Mid's distribution of home mortgage loans to low- to moderate-income borrowers" in St. Louis was either "good" or "excellent" from 2015 - 2017. Overall, the OCC has given favorable ratings in connection with First Mid's CRA lending in all of its assessment areas.

First Mid's Voluntary Enhancements
to its Fair Lending Efforts

First Mid has voluntarily taken additional steps to enhance its service in diverse communities. As one example, in July 2019, First Mid opened a *de novo* branch location in Alton, Illinois. The branch is a full-service facility that is located in a low- to moderate-income tract with 42.75% minority residents.

In addition, First Mid recently promoted one of its key employees, Brian Gibson, to the role of Senior Vice President for Community Development. The Bank also has taken steps to hire a community development mortgage lender in the St. Louis market. That person should be in place relatively soon.

I also informed you on October 6, 2021, just days before your letters, about other commitments First Mid is making voluntarily, which include the following:

- Maintaining the Bank's existing branch locations in the St. Louis MSA.
- Increasing the Bank's CRA qualified investments to \$8 million by the end of 2022.
- Offering secondary market mortgages, including programs such as the Home Possible and HomeOne programs (Freddie Mac), FHA Down Payment Plus (FHLB Chicago), and the USDA Rural Development loan product, all of which target the LMI population.
- Ensuring the Bank's marketing efforts are inclusive and directed to diverse residential mortgage loan applicants.
- Continuing to ensure all personnel involved in lending receive annual fair lending training.

All of the efforts identified above are underway, and they should continue to enhance First Mid's position in St. Louis and other locations.

First Mid's Unprecedented Lending Volume in 2020
Should not be a Basis to Deny the Pending Application

Your letters focus on lending from 2018-2020. First Mid strongly disagrees that using its 2020 lending is appropriate in this context. Including the Bank's 2020 data in the lending analysis leads to misleading and skewed conclusions about First Mid's fair lending efforts.

In 2020, the Bank received nearly double the number of residential home mortgage loans than it had in prior years. The Bank's loan volume in 2020 was unexpected and, importantly, was not the result of a concerted effort to change the Bank's lending focus. With the benefit of hindsight, it can be seen that there were two forces at play: a) record low interest rates, and b) the nearly unprecedented increase in residential real estate transactions, which presumably was caused in large part by the global pandemic. The large number of applications was not the result of actions taken by First Mid to increase its residential mortgage lending.

Importantly, given the unexpected and rapid influx of mortgage loan applications, First Mid had no way to conduct a real-time evaluation of the effects of the 2020 loan applications on its overall lending footprint. First Mid, of course, now is able to take the steps necessary to ensure that its lending is more reflective of the communities it serves in future years.

Notably, though, even with those record-level mortgage loan applications, the Bank attempted to keep focused on its core business. First Mid remains a commercial bank and its small business expertise allows it to significantly and positively impact the communities that it serves. For example, the Bank originated nearly \$93 million in community development loans in 2020 alone. Those loans bolster the entire community.

In sum, given the market forces at play in 2020, it is not fair to give the same weight to First Mid's 2020 residential mortgage lending as given to its lending in other years.

SLEHCRA and Woodstock's Methodology Appears Designed to Find Fault with First Mid
and, Thus, First Mid Does Not Agree with the Conclusions Reached

First Mid takes issue with the manner in which your organizations conducted their joint analysis and, importantly, does not agree with the conclusions they reach. Moreover, it is unfortunate you are using the flawed analysis to prevent the very acquisition that would help First Mid bolster its lending in underserved communities.

Market share is one example of the points with which the Bank takes issue. SLEHCRA and Woodstock do not seem to appreciate the difficulty of a community bank competing in the St. Louis market. First Mid has had a very small presence in that market, which is dominated by large lending institutions that have significant footprints and significantly more resources available for marketing purposes. First Mid's acquisition of Jefferson Bank will assist First Mid in gaining additional traction in the market, particularly because Jefferson Bank's main facility is located in a majority-minority and LMI census tract. As noted herein, First Mid will continue to operate that branch location.

Moreover, the SLEHCRA and Woodstock analysis selects unnamed “peer institutions” to use as a comparison, but it does not identify either the institutions or the criteria used to select them. Selection of peer institution issue is key to a fair evaluation of First Mid, given its small market share.

In addition, your organizations’ focus on percentages of loans instead of raw numbers creates a misleading understanding of the Bank’s lending. Because of the Bank’s small market share, a very small number of loans would put the Bank at or above the population percentage. The table below highlights this issue for 2019:

MSA	County	First Mid Total Applications	First Mid African American Application %	Total African American Application %	Additional Applications Needed to Match or Exceed the Population
St. Louis	Madison	276	1.09%	3.63%	7
	St. Clair	18	5.56%	12.97%	2
Champaign	Champaign	97	3.09%	5.74%	3
Carbondale	Williamson	51	0.00%	2.23%	2
	Jackson	20	5.00%	4.19%	0
Decatur	Macon	58	0.00%	6.65%	4
Peoria	Peoria	32	3.13%	7.15%	2

Suffice it to say, for the reasons outlined herein and others, First Mid strongly disagrees with SLEHCRA and Woodstock's conclusions as well as its approach to this issue.

First Mid will continue to work cooperatively with your organizations on the issues you have identified. However, First Mid does not believe such issues should prevent approval of the Bank’s application before the Federal Reserve. Approval of that application would assist First Mid in accomplishing the goals that we share, which is improved access to credit in underserved communities.

Please reach out with any questions.

Sincerely,



Joseph R. Dively
 Chairman and CEO

cc:

Ms. Colette A. Fried
Federal Reserve Bank of Chicago
230 South La Salle Street
Chicago, Illinois 60604-1413
Via email: Colette.A.Fried@chi.frb.org

U.S. Department of Justice
Antitrust Division
Litigation II Section/Banking Unit
Liberty Square Building, Suite 8700
450 Fifth Street, N.W.
Washington, D.C. 20530
Antitrust.Bank@usdoj.gov

Richard E. Allen
Assistant Regional Director
Federal Deposit Insurance Corporation
Kansas City Regional Office
1100 Walnut, Suite 2100
Kansas City, Missouri 64106
riallen@fdic.gov

Deborah Johnson-Knox
Illinois Department of Financial and Professional
Regulation
Division of Banking
100 West Randolph, 9th Floor
Chicago, Illinois 60601
deborah.johnson-knox@illinois.gov

Brian James
Deputy Comptroller
Comptroller of the Currency
Central District Office
425 S Financial Place, Suite 2700
Chicago, Illinois 60605
ce.licensing@occ.treas.gov

Emily Kliethermes
Review Examiner
Applications, Missouri Division of Finance
Missouri Department of Commerce & Insurance
301 Missouri Boulevard
P.O. Box 1335
Jefferson City, Missouri 65102
Emily.Kliethermes@dof.mo.gov