NATIONAL
COMMUNITY
REINVESTMENT
COALITION

NCRC

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Yvonne Sparks
Community Development Officer
Federal Reserve Bank of St. Louis
P.O. Box 442
St. Louis, MO 63166-0442

RE: Midland States Bancorp, Inc. Acquisition of Heartland Bank

Dear Ms. Sparks:

The National Community Reinvestment Coalition is writing to express concern about the acquisition by Midland States Bancorp of Heartland Bank, and the subsequent merger of Heartland Bank into Midland Sates Bank. We do not believe that Midland States Bank is meeting the credit, capital, or service needs of low- and moderate-income or minority communities and borrowers, and we believe that the acquisition of Heartland Bank will not improve the bank's performance or create a clear benefit to the public, as required by law. Given the severity of our concerns regarding Midland's lending performance, we respectfully request that the Federal Reserve Bank of St. Louis delay approving the merger application until both the Department of Housing and Urban Development resolves the fair lending complaint filed against the bank by the Metropolitan St. Louis Equal Housing Opportunity Council and the bank can demonstrate a clear value to the public through the merger.

For nearly 50 years, U.S. law has required that the prudential banking regulators consider the public interest when approving or denying bank mergers and acquisitions. Section 225.24(a) (iii) of Regulation Y states that every bank applying to engage in an acquisition must state the benefits that the public can reasonably expect to receive as a result of the proposed transaction.[i] The National Community Reinvestment Coalition is concerned that this acquisition will not provide a clear or significant public benefit, especially for low- and moderate-income or minority communities and borrowers. Midland States' previous lending and service record, particularly in urban markets after other recent acquisitions, demonstrates that the bank has not been committed to better serving traditionally marginalized communities through their increased size and capacity.

Our concern is amplified due to Heartland Bank's position in the St. Louis mortgage market and its superior prior lending performance compared to Midland States. According to media reports, Heartland Bank is one of the largest residential mortgage lenders in the St. Louis market[ii], and analysis of Home Mortgage Disclosure Act (HMDA) data shows that it led its peers in lending to African-American and low- and moderate-income borrowers in 2011 and 2012. In contrast, Midland States lagged behind all lenders in St. Louis in home loans to low-income borrowers in both years, while making zero loans to African-American borrowers in 2011 and just one percent of its loans to African-American borrowers the following year.

To illustrate our concerns with Midland States Bank's prior lending and service performance, please consider the following analysis, which was compiled using HMDA, small business lending, and branching data. It was also tailored to the counties that were specified as Midland States' CRA assessment areas in its 2011 examination.

Home Lending to Low-Income Borrowers and Communities

Midland States' lending performance to low- and moderate-income borrowers and communities adequately met peer lending levels in some markets, in part because of very low levels of lending to low-income census tracts by all lenders in the rural areas of Central and Northern Illinois, particularly in 2011 when all lenders made zero loans. However, Midland States' performance in CRA-related lending suffers in its more urban markets, including Champaign County and Will County. In addition, Midland States' lending levels to low-income borrowers in the St. Louis MSA, where they hope to expand significantly through the acquisition of Heartland Bank, consistently fell behind the aggregated levels of lending by all lenders.

- **Neither Midland States nor any of its peers made a single HMDA-eligible loan in a low-income census tract in Will County in 2011.** In 2012, all lenders made only 0.5 percent of their loans to borrowers in low-income tracts, but Midland States' count of loans to such tracts remained at **zero**. As of the 2010 Census, 3.66 percent of the population in Will County lives in low-income census tracts.

- Midland States did not issue a single loan to a low-income borrower in Will County in 2011, while all lenders issued 6.7 percent of their loans to borrowers in that category. This trend is more apparent in 2012 because of Midland States' slightly higher lending levels in Will County. That year, Midland States still made zero loans to low- or moderate-income borrowers in the area, while all lenders issued loans to these borrowers at 6.7 percent and 15.8 percent, respectively.

- Midland States lagged behind its peers in lending to moderate-income tracts in Champaign County in 2011, with all lenders issuing 11.5 percent of their loans to these areas and Midland States issuing just 7.4 percent. In 2012, the bank continued to lag behind its peers, making 4.91 percent of its loans to moderate-income tracts while all lenders made 7.68 percent. Despite leading peers in lending to low-income census tracts in Champaign County in 2011 (3.70 percent to 1 percent), Midland States did not keep pace with the increase in peer lending to low-income tracts in 2012, making only 2.64 percent of its loans to such tracts compared to all lenders' 3.01 percent.

- In both 2011 and 2012, Midland States performed below peer levels in lending to low-income borrowers in St. Louis. In 2011, Midland States issued 6 percent of its home loans to low-income borrowers and all lenders issued 7.8 percent. This gap grew in 2012, when Midland States made 6.5 percent of its loans to low-income borrowers, while its peers made 8.1 percent of their loans to borrowers in that category. Midland States' low performance compared to the already low lending levels of its peers is of particular concern given that 24.5 percent of households in the St. Louis area are low-income, according to 2010 Census data.

- As a point of comparison, Heartland Bank issued 10.11 percent of its loans to low-income borrowers in the St. Louis MSA in 2011 and 10.03 percent the following year.

Home Lending to Minorities

Midland States Bank's record of home lending to minorities, and particularly African-American borrowers, is a fair lending concern.

- **Midland States originated only three home loans to African-American borrowers in 2011 in all of its markets, representing just 0.4 percent of its lending volume.** In 2012, Midland States issued only 10 home loans to African Americans across all of its markets, making up 0.8 percent of its total lending volume. This low volume of lending to African Americans remained approximately the same between 2009 and 2012, despite acquiring three new banks.

- In Champaign County, Midland States fell behind aggregate lenders in lending to African Americans in 2011 and 2012. Midland States made zero percent of its HMDA-eligible loans to African-American borrowers in 2011, while all lenders made 3.9 percent of their loans to borrowers in this category. In 2012, with significantly higher lending volume in the market, Midland States made 1.5 percent of its loans to African-American borrowers, still falling short of the 3.3 percent issued to that group by all lenders. Midland States' poor lending performance is more striking because 12.23 percent of households in Champaign County are African American.

- Midland States fell behind all lenders in aggregate in lending to African-American borrowers in Will County in 2011 and 2012. Midland States made zero HMDA-eligible loans to African-American borrowers in Will County in either year, while all lenders in aggregate made 3.9 percent in 2011 and 4 percent in 2012. Midland States also fell behind peer lending levels to Asians in Will County in both 2011 and 2012 by making zero loans to that group, while all lenders issued 6.8 percent of their loans to Asians in both years.

- Midland States' lending to African Americans was particularly poor in the St. Louis MSA, where it made no loans to African-American borrowers in 2011. All lenders in aggregate made 4.5 percent of their loans to African Americans in that year. In 2012, Midland States made 3 HMDA-eligible loans to African Americans, representing just one percent of its lending in that market. As a contrast, all lenders issued 4.6 percent of their home loans to African-American borrowers that year. Midland States' low lending levels to African-American borrowers are particularly striking when considering that African Americans make up 22.07 percent of the population of the St. Louis MSA.

- Again, as a point of contrast, Heartland Bank led the market in 2011 and 2012, issuing 7.12 percent and 6.92 percent of its loans to African Americans in the St. Louis MSA.

- In the three markets with significant minority populations (St. Louis, Will County, and Champaign County), Midland States fell behind all lenders in issuing loans to majority minority census tracts in 2012.

Small Business Lending

Overall, Midland States adequately met the small business lending needs of low- and moderate-income communities in 2012, dramatically improving its performance from 2011, when it lagged behind all lenders in every one of its markets by large margins. This improvement is laudable, and we would like to see continued gains in this and other areas of lending.

- In Will County, Midland States Bank lagged behind all lenders in 2012 in issuing loans to small businesses with revenue under $1 million. Midland States issued 36.67 percent of their loans to such borrowers, while all lenders issued 41.8 percent. This disparity is particularly relevant given that 71.63 percent of small businesses in Will County fall below this revenue threshold.

Branching Pattern

Midland States Bank's branching pattern raises serious concerns about its ability to serve low- and moderate-income and minority communities.

- **Only two of Midland States' 33 full- or limited-service branches are located in moderate-income communities.** Midland States Bank maintains zero branches in low-income communities in any of its assessment areas.

- None of Midland States' branches are located within census tracts where more than 50 percent of the population is minority. Nearly half of its branches (15) are located within census tracts where less than 10 percent of the population is minority.

- None of Heartland Bank's branches are located in low- or moderate-income census tracts or tracts were more than 50 percent of the population is minority.

Midland States Bancorp does not adequately outline how its combined operations with Heartland Bank will lead to greater benefits for the public, particularly for traditionally underserved communities. Midland States' application to acquire Heartland Bank states that the combined bank would better serve the convenience and needs of the public through "increased banking offices and ATMs," "wealth management, including investment management, trust services, private banking and brokerage," "expanded card products, including credit cards and prepaid cards," and an "expanded treasury management product set." Most of these products, such as trust services, serve mainly affluent clients. We note a lack of products in this list specifically geared for modest income customers such as first time homebuyer loans or loans for very small or immigrant businesses. Also, the proposed benefits do nothing to improve upon Midland States' already poor record of serving low- and moderate income and minority borrowers and communities.

The acquisition of Heartland Bank would be Midland States Bancorp's fifth acquisition in the past four years, and despite its expanded capacity through this growth, Midland States has not demonstrated a benefit to the public through increased lending to underserved communities, particularly in more diverse markets like Champaign County and Will County. Because the St. Louis market more clearly mirrors the demographic make-up of these other newer markets, particularly in terms of African-American and low- and moderate-income borrowers, we are concerned that the pattern of poor lending to underserved communities will continue on a broader scale in St. Louis. The application by Midland States Bancorp deepens these concerns because the application fails to substantiate its assertion that the "Applicant Bank will continue to strive to provide for the credit needs of all elements of its communities, including the needs of low- and moderate-income geographies and individuals." Midland Bank should show, in a concrete manner, how its proposed acquisition would benefit the public. It should submit a public benefits commitment that would set measurable goals for improving upon its deficiencies in lending and branching described above while also committing to preserve the commendable performance of Heartland Bank. A public benefits commitment should also describe the methods for improving performance such as increased marketing in underserved communities, partnerships with community organizations, and the introduction of new products.

Midland States' record demonstrates a clear failure to meet community needs, and it shows a possible violation of fair lending law. This record, combined with the lack of a clear commitment by the bank to improve is troubling. We are concerned that Midland States' acquisition of Heartland Bank could actually serve to restrict access to capital and credit in St. Louis by removing Heartland's more positive lending practices from the market. Instead of a benefit to the public, as required by law, we believe that this merger may actually harm lending and service in low- and moderate-income and minority communities in St. Louis. We urge the Federal Reserve Bank of St. Louis not to accept Midland States Bancorp's application to acquire Heartland Bank until all fair lending complaints are resolved by the Department of Housing and Urban Development and the bank can demonstrate a clear value to the public through this merger. We also request that the Federal Reserve conduct public hearings to give the affected public a chance to voice their views regarding the public benefits of this merger.

Thank you for the opportunity to comment on this important matter.

Sincerely,

John Taylor
National Community Reinvestment Coalition

CC: John M. Schultz, Chairman
Midland States Bancorp, Inc.

Leon J. Holschbach, President and CEO
Midland States Bank

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[i] 12 CFR §225.24
[ii] "Midland States Bancorp, Inc. Agrees to Acquire Heartland Bank", http://finance.yahoo.com/news/midland-states-bancorp-inc-agrees-030000500.html.