THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

MSBI - Q2 2016 Midland States Bancorp Inc Earnings Call

EVENT DATE/TIME: JULY 29, 2016 / 12:30PM GMT

CORPORATE PARTICIPANTS

Allyson Pooley *Financial Profiles, Inc. - IR*

Leon Holschbach *Midland States Bancorp, Inc. - President and CEO*

Jeff Ludwig *Micland States Bancorp, Inc. - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

Michael Perito *Keefe, Bruyette & Woods - Analyst*

Terry McEvoy *Stephens Inc. - Analyst*

Kevin Reevey *D.A. Davidson & Co. - Analyst*

Andrew Liesch *Sandler O'Neill & Partners - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Midland States Bancorp second-quarter 2016 earnings call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions). As a reminder, today's conference is being recorded.

I would now like to turn the call over to Ms. Allyson Pooley from Financial Profiles. Ma'am, you may begin.

Allyson Pooley *- Financial Profiles, Inc. - IR*

Thank you, Chelsea. Good morning, everyone, and thank you for joining us today for the Midland States Bancorp second-quarter 2016 earnings call, the first as a public company.

Joining us from Midland's management team are Leon Holschbach, President and Chief Executive Officer, and Jeff Ludwig, Executive Vice President and Chief Financial Officer.

We will be using a slide presentation as part of our discussion this morning. If you haven't done so already, please visit the webcast and presentation page of Midland's Investor Relations website to download a copy of the presentation.

Leon and Jeff will discuss the second-quarter results and then we will open up the call for questions.

Before we begin, I would like to remind you that this conference call contains forward-looking statements with respect to the future performance and financial condition of Midland States Bancorp that involve risks and uncertainties. Various factors could cause actual results to be materially different from any future results expressed or implied by such forward-looking statements.

These factors are discussed in the Company's S1 filed with the SEC in conjunction with their IPO and which is available on the Company's website. The Company disclaims no obligation to update any forward-looking statements made during the call.

Additionally, management may refer to non-GAAP measures which are intended to supplement but not a substitute for the most directly comparable GAAP measures. The press release available on the website contains the financial and other quantitative information to be discussed today as well as the reconciliation of the GAAP to non-GAAP measures.

With that, I will turn the call over to Leon.

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

Thank you, Alison, and welcome everyone to our second-quarter earnings call. Since this is our first earnings call, I wanted to start off on slide three by providing a brief overview of our Company and the strategies that we are employing to create shareholder value.

At the heart of Midland is a strong community bank that serves commercial and retail customers principally in Illinois, Missouri and Colorado. Over the past eight years, we have focused on building a highly diversified financial institution with a broad set of fee income businesses including wealth management, commercial FHA lending and residential mortgage lending.

The business model that we have created not only reduces our reliance on spread income but provides a number of catalysts for driving organic growth into the future.

We operate with a consistent focus on five core strategic initiatives, building a diverse business mix with multiple sources of revenue, maintaining a customer centric culture that differentiates us from the largest competitors, generating de novo growth by attracting experienced teams of bankers that allow us to enter new markets as well as more deeply penetrate our existing markets, leveraging our experienced acquisition team to identify and execute transactions that build shareholder value, and maintaining a disciplined approach to risk management at all levels of our organization.

We believe that the business mix that we have created positions us to perform well regardless of the interest rate environment. In a lower for longer rate environment, we will benefit from the increased demand in our commercial FHA business which not only produces fee income for the Company but also provides significant deposits which serve as a long-term stable source of very low-cost funding that can be used to support loan growth in other areas of the bank.

Our residential mortgage business also benefits from more loan demand as interest rates decline. However, this is offset to some degree by declines in the value of our mortgage servicing rights as rates move lower.

When interest rates eventually rise, the low-cost deposits provided by the commercial FHA business will become even more valuable and support the expansion of our net interest margin and the values of our mortgage servicing rights will also begin to recover. In either interest rate environment, we believe that Midland can deliver strong performance for our shareholders.

We are also very proud of our track record of growth. Since 2008, we have increased our total assets on a compound annual growth rate of 30% and our tangible book value per share by 9%. We are confident that by continuing to execute well on our five core strategic initiatives we can continue to generate strong growth and create additional value for our shareholders in the years ahead.

Turning to slide four, I want to walk through a summary of our second-quarter performance. Obviously the highlight of the quarter was the completion of our IPO. With the capital that we raised, we believe we are well-positioned to continue implementing our organic and acquisitive growth strategies which we believe will create additional value for our shareholders in the years ahead.

In the second quarter, we generated $6.8 million in net income or $0.50 per diluted share. We had a strong quarter even as our bottom-line results were impacted by a $3 million impairment charge on our residential mortgage servicing rights due to the decline of long-term interest rates. This impairment charge reduced our earnings by $0.14 per share.

I was very pleased with our loan growth in the quarter and through the first half of 2016 our annualized loan growth rate is 16%. Our loan growth was very well-balanced in the second quarter and reflects the diverse business model we have built. We had growth across all loan categories and from a geographic perspective, we are getting a balanced contribution from all of our markets and particularly positive growth in our Illinois market.

Turning to slide five, I want to talk about the performance at each of our business units. I'm going to start with Love Funding, which is our commercial FHA loan origination and servicing business which focuses on multifamily and healthcare facilities. I want to spend some time on this business because it is unique and not many banks operate in this space.

Love Funding specializes in the commercial FHA financing sector and generates direct revenue in three ways. First, through origination fees associated with helping clients obtain FHA financing; then by securitizing and selling the Ginny Mae security issued in connection with the financings; and finally, by servicing these loans on behalf of Ginnie Mae and the security holders.

FHA financings can be for new construction or as part of the sale of a property or a refinancing by the owner. Love Funding also provides FHA rate reductions for loans in its servicing portfolio. These are known as loan modifications in the industry.

Two other benefits to us from this business are the low cost, stable deposit base it provides and the opportunities for providing bridge financing both of which I will come back to in a minute.

We had a very strong quarter of loan production in Love Funding and rate locked $281 million in loan commitments.

As I mentioned earlier in addition to the fee income that this business generates, the other really valuable contribution that we get from this business is a source of low-cost deposits.

Each borrower is generally required to keep a deposit balance and replacement reserves for both maintenance and CapEx during the life of the loan which can run up to 40 years. Borrowers are also required to maintain escrow funds for taxes and insurance. In the second quarter, our average balance of servicing deposits was $267 million which represents a little more than 11% of our total deposits.

Our weighted average cost of funds on these deposits in the quarter was a modest 8 basis points. We view these funds in two ways. First, as a source of very stable deposits in a low interest rate environment where attracting deposits is becoming more challenging. And second, as a driver of net interest margin when rates increase because the cost of these funds will rise much more slowly than loan rates.

We have also identified a significant opportunity to provide bridge loan financing to our FHA customers principally in the form of construction financing needed by the developers and as a result of certain refinancing restrictions on the FHA loans themselves. After just starting the program at the end of last year, we have funded $30 million of these bridge loans with unfunded commitments for another $60 million. We view this program as an important source of growth in our loan portfolio and a strong pipeline to future commercial FHA revenue.

Turning to slide six, we will look at our residential mortgage business. We had a strong quarter of loan production with $133 million in originations. Most of the originations in the second quarter were from new purchases which reflects the strong trends we are seeing in our local housing markets. We had a nice uptick in our gain on sale income from the first quarter to $3.6 million. But as I mentioned earlier, we also recorded a $3 million impairment to our mortgage servicing rights which largely offset our residential mortgage banking revenue this quarter.

Turning to slide seven, we will look at Heartland Business Credit, our equipment leasing business. This business continued its very strong growth and generated nearly $33 million in originations almost doubling the level from the second quarter of last year. We've been able to drive this growth without adding personnel. The growth is coming from doing a good job in the basic blocking and tackling of this business. We received lending opportunities from our network of equipment manufacturers and brokers and when you do a good job in servicing their customers, being responsive, providing quick and efficient loan approval, you get rewarded with more opportunity. That is what we are seeing driving the growth in this business.

We generate very attractive yields in this business and the average rate on our new loan originations in the quarter was 5.56%. These are strong credits. Charge-offs in this business have historically been very low. When you marry the low-cost deposits from our commercial FHA business with the high-yielding loans generated in the equipment leasing business, you can see how this has the potential to have a very positive impact on our level of profitability as both of these businesses continue to grow.

Turning to slide eight, we will take a look at wealth management. This has been a very stable source of revenue for us consistently generating between $1.8 million and $1.9 million in revenue over the past five quarters.

We are on track to close our acquisition of Sterling Trust late in the third quarter. This will increase our total assets under administration by about one-third and take us to another level in terms of quarterly revenue.

Now I'm going to turn the call over to Jeff Ludwig to walk through some additional details on our second-quarter performance. Mr. Ludwig?

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

Thanks, Leon. Starting with slide nine, I will review our net interest income and net interest margin.

Our net interest income was up 16% from the first quarter primarily due to a $3 million increase in accretion income. Aside from the impact of the accretion income, we also benefited from an increase in average loan balances due to a strong loan growth that Leon discussed.

Our net interest margin saw a 40 basis point increase due primarily to the increase in accretion income. Margin excluding accretion income was essentially flat.

Moving to slide 10, we had a $6.6 million decrease in PCI loans in the second quarter including $5.9 million in payoffs. One of these payoffs affected a number of line items in our financial statements and was a contributing factor to the $3 million increase in accretion income in the quarter. So I want to walk through the impact of this pay off.

First of all, the payoff generated $1.8 million in accretion income. Additionally the loan was covered by an FDIC loss sharing agreement and was charged off back in 2010. At the time, the FDIC reimbursed us for its share of the loss. As a result of the full pay off, the FDIC was entitled to be reimbursed and we recorded $1.5 million in loss-sharing expense which reduced our noninterest income in the quarter.

This pay off also resulted in an $800,000 reduction in provision expense in the quarter. To summarize, we had a positive impact on our interest income and provision expense and a negative impact on our noninterest income.

Moving to our noninterest income on slide 11, we have a number of contributors to noninterest income which in the aggregate account for more than 33% of total revenue which puts us well above most of our peers in terms of contribution to fee income to the overall business model. Overall, our noninterest income was 11% higher than last quarter. Our commercial FHA business had a strong quarter with $8.5 million in revenue, an increase of 30% from last quarter.

Last quarter was negatively impacted by $824,000 in other than temporary impairment on our investment securities and no impairment was recorded this quarter. The other major variance this quarter was the $1.5 million in FDIC loss sharing expense that I discussed earlier.

Turning to slide 12, we will take a look at our expenses and efficiency. We were pleased to improve our efficiency ratio for the second consecutive quarter even as noninterest expense increased 12% over last quarter. The overall increase in expense was mostly due to higher salaries and benefit expense which resulted from salary increases across the Company that took effect on the first day of the quarter which accounted for approximately $400,000 of the overall increase and a $1.3 million increase in bonus accrual including approximately $600,000 to true up the accrual based on our improved results over the first quarter.

In addition to these salary and benefit items, the other significant variance from the first quarter was a $511,000 write-off of the accounting discount related to the early pay off of $8 million of subordinated debt after the IPO. That debt had an interest rate of 8.25% and the payoff will reduce future interest expense by approximately $160,000 per quarter. We also recorded $200,000 of OREO impairment related to three properties.

Moving to the balance sheet on slide 13, we will take a look at our loan portfolio. We saw outsized loan growth in the quarter with total loans increasing by $145 million and the growth being generated across all areas of our portfolios. We principally attribute this growth to efforts we made in the first quarter with respect to rolling out new products and targeted sales efforts by our lending teams with the FHA bridge loan program being a good example. Just as importantly, our pipelines also look strong.

Turning to slide 14, we will take a look at our deposits which are up year-over-year. After three quarters of successive growth, we did see a slight drop in end-of-period numbers but that principally resulted from normal movements in our Ginnie Mae servicing portfolio and core deposits remain strong.

Moving to slide 15, asset quality continued to improve, nonperforming loans are declining and charge-offs were minimal.

With that I will turn the call back over to Leon. Leon?

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

Thanks, Jeff. So turning to slide 16, I will wrap up with some comments on our outlook.

We believe the economic conditions in our markets continue to be healthy with the result that we are seeing strong pipelines across each area of our businesses and again, we expect year-over-year loan growth in the low to mid teens.

The one thing that I think is particularly important for those covering our Company to understand and that is that our business mix isn't conducive to producing steady, sequential quarterly earnings growth and we focus much more on year-over-year performance. As we mentioned today, there are a number of items that ebb and flow quarter to quarter with our commercial FHA business being perhaps the best example.

In that area, we are seeing very strong pipeline growth but we have fewer loans at the later stages of the pipeline so we are expecting our loan production and gain on sale from Love Funding to be lower in the third quarter with the overall second half of the year looking similar to the first six months.

We expect our commercial leasing business to continue taking advantage of its strong customer relationships and stay on track for a good year.

In residential mortgage which is also some seasonality, home sales in our market seem strong and we expect to continue operating at a healthy clip for the balance of the year. Wealth management is on track for a good full year and we look forward to closing on the Sterling Trust Company acquisition hopefully in the next couple of months.

On the rest of the acquisition front, we are seeing a number of other opportunities that could be attractive and we will see how these play out. As we highlighted on our road show, there are more than 1200 banks and thrifts in Illinois and its five contiguous states with assets in the less than $1 billion category so we feel we are in a pretty good spot and can stay focused on the metrics we want from acquisition deals.

Outside of the bank space, we are also seeing some interesting opportunities to grow some of our other platforms.

All in all we think we have a good runway for further growth and we expect our mix of business, strong loan pipelines and robust noninterest income as a percentage of total income leave us well-positioned as we head into the end of the year and forward into 2017.

With that we will be happy to answer any questions that you might have. Chelsea, if you would open up the lines up please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Michael Perito, KBW.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Good morning, guys. Thanks for all of the color on the businesses. Wanted to spend a little bit more time on the commercial FHA which was strong in the quarter. Do you guys have a sense for what was pure origination versus rate modifications in the quarter? Just trying to get an idea of what is a better origination run rate for the back half of the year here.

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

I think, Mike, we think that rate locks in the back part of the year are going to look a lot like they were in the first part of the year so I think just from a revenue point of view, back part of the year looking a lot like the first part of the year like we talked in the call.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Yes, sorry, maybe I misspoke but like the percent that our loan modifications versus like new originations. I think it was about 30% of the $227 million in the first quarter. Do you guys have that number for the second quarter?

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

Yes, second quarter we had a light loan modification quarter although in the quarter we did have a large loan that was rate locked which did generate a smaller margin which kind of acted more like a rate modification. So a big deal rate locked in the quarter which had a lower margin rate associated with it.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

All right, so that is helpful. Thanks. And then maybe on the expenses, it sounds like if you adjust for everything that is non-core but you keep in all the salary increases and stuff it was about a $30 million run rate more or less. Is that the right kind of ballpark to think about as we move into the back half of the year here?

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

Yes, I think that is a good number.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Okay. And then just one more for me on the NIM. Jeff, you mentioned the subordinated debt as you were paid. Can you just remind me the timing of that and whether there was any impact benefit in the Q2 NIM or are we going to see that largely in the third quarter?

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

It will be all in the third quarter. I think the payoff was second or last day of the quarter.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Okay. Thanks, guys.

Operator

Terry McEvoy, Stephens.

Terry McEvoy - *Stephens Inc. - Analyst*

Hi, good morning. Just so I can get an understanding of the MSR impairment, I think last quarter about $40 million or $45 million of the MSR was Love Funding and the rest was the residential mortgage business. The $3 million of MSR impairment in Q2, did that all occur in the residential mortgage or is it split between the two businesses?

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

The impairment in the current quarter was all related to the residential portfolio.

Terry McEvoy - *Stephens Inc. - Analyst*

And then I guess just sticking with Love Funding given the long close time on deals as you think about the business that occurred in the second quarter, do you have any commentary as it relates to maybe the first half of 2017 now that you've hopefully got a little bit of visibility?

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

Terry, this is Leon. So I would point you this way, that even though they had a real strong first half, the pipeline at Love continues to grow and however caution that with yes, the lead times are long. So looking out into 2017 gets a little tricky but the Love Funding management team is confident and we are as well that the pipeline that they have built bodes well for 2017. But we really can't be much more specific than that. Driven by pipeline, it looks good.

Terry McEvoy - *Stephens Inc. - Analyst*

Okay. And then reserves came down a little bit and it was one of those three areas that you highlighted from the PCI loan. How should we think about provisioning reserve build going forward? Is it charge-offs plus loan growth?

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

Yes, I mean generally I think that is how we think about it. There is as you know, a lot of details and judgment in the calculation but I think generally that is kind of how we think about it.

Terry McEvoy - *Stephens Inc. - Analyst*

Great. Thanks, guys.

Operator

Kevin Reevey, D.A. Davidson.

Kevin Reevey - *D.A. Davidson & Co. - Analyst*

Good morning, Jeff. Good morning, Leon. I notice that your loans 30 to 89 days look like that was still pretty benign, it looked like it had ticked up. Can you give us some color as to what was happening there?

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

Yes, I would say unremarkable, Kevin. We have been fairly consistently in the under 50 basis points on the 30 to 89. At that level -- I think we are at about 40 basis points. At that level, we have a solid comfort. Maybe as we go along here a little bit, we can pull out a specific number for you.

But that number, we are comfortable with that number and it is consistent on an average basis.

Kevin Reevey - *D.A. Davidson & Co. - Analyst*

Okay. And then your potential problem loans, can you give us some color as to how that trended in the second quarter versus the first quarter specifically your grade 7 and 8 loans?

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

Substandards did pick up just a bit in the second quarter due primarily to one particular credit but I think our total substandards to capital is in --

---

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

-- relatively flat.

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

Relatively flat, right.

Kevin Reevey - *D.A. Davidson & Co. - Analyst*

Okay, great. Thanks, guys.

Operator

Andrew Liesch, Sandler O'Neill & Partners.

Andrew Liesch - *Sandler O'Neill & Partners - Analyst*

Good morning. Just a question on the core margin here, drifted a bit lower but just on the portfolio and core loan yields, maybe what were the yields that you were originating this quarter versus what you were originating last quarter? And what might be the core portfolio yield excluding other discount accretion just so we can have some idea of how that could trend going forward?

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

Right, so the last four quarters of originations have been right in that 4% to 4.25% range. Last quarter was 4.15%. That is in the core bank. And then separately as I mentioned in our report, the leasing origination volume is nicely higher at about 5.56% or so. So core commercial and other production low 4's, leasing company producing in the 5.5% range for net new business.

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

Andrew, if you look in the appendix of the deck, we do show what loan yields are excluding accretion income and in the quarter it was 4.37%.

Andrew Liesch - *Sandler O'Neill & Partners - Analyst*

Right. So maybe debt say is relatively steady blending the core bank plus the leasing and then some benefit on the funding side so this 3.52 core margin maybe there is some room for it to move a bit higher?

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

I think we are probably comfortable (multiple speakers)

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

I would be more comfortable saying stable about where it is but I will take your bet on it go up a little bit but we are thinking more like stable where it is.

Andrew Liesch - *Sandler O'Neill & Partners - Analyst*

Okay, thank you. And then just one last question just on the fee income, just like the other line increased. It looks like it has bounced around a little bit from other quarters, just curious was there anything one-time in that $2.2 million?

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

Yes, I think one of the drivers there would be we have increased our bank owned life insurance so the increase in revenue flows through that line item.

Andrew Liesch - *Sandler O'Neill & Partners - Analyst*

You telegraphed that to us. That makes sense.

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

I think that is probably it.

Andrew Liesch - *Sandler O'Neill & Partners - Analyst*

That is all of my questions. Thanks so much.

Operator

(Operator Instructions). Michael Perito, KBW.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Thanks, guys. Just a couple of quick follow-ups. Just one, you mentioned in the release vaguely, but do you have an updated sense for when the Sterling acquisition is going to close? Is it going to be later in the quarter now or relatively shortly here?

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

I think it is going to be toward the very back part of the quarter. We are not expecting any benefit from that acquisition in the current quarter.

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

I think they mentioned it in their release as well.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Okay, so more the impact will be more in the fourth quarter versus the third quarter?

Jeff Ludwig - *Micland States Bancorp, Inc. - EVP and CFO*

Yes.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

Okay. And then just any updated thoughts -- I mean there has been a couple of quarters in a row the residential MSR has been a little volatile with the impairments. Obviously the rate environment is not great for that business and that could change. But it sounds like pipelines are pretty strong in other businesses that are maybe generating some higher returns. Any updated thoughts on how you guys are thinking about the longer-term viability of the residential MSR business?

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

Sure. So a couple of thoughts on there. So we all understand that the tougher capital treatment for mortgage servicing rights keeps it in the crosshairs all the time for efficient use of capital and the volatility aspect of it certainly undesirable. We like the residential mortgage business a lot, we don't like the volatility of the mortgage servicing right so we are evaluating that all the time. We need a little help from the 10-year treasury though so anything you can do along that line would be appreciated.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

I am running out of tricks over here but I will try and think of something.

And that just relates to the resi MSR, correct? You guys are longer-term more of the commercial FHA (multiple speakers)?

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

Yes. The commercial servicing rights behave so much better, the nature of the underlying credits don't make refinancings out of the portfolio particularly easy. And so yes, as we pointed out earlier in the quarter, all of the impairment was on the single-family even though the mortgage servicing right is twice the size of the single-family, three times the size of the single-family servicing rights.

So yes, the volatility is in the single-family. The commercial behaves very well.

Michael Perito - *Keefe, Bruyette & Woods - Analyst*

All right, perfect. Thank you, guys. Appreciate it.

Operator

Terry McEvoy, Stephens.

Terry McEvoy - *Stephens Inc. - Analyst*

Thanks again. Could you just talk about the net $30 million plus growth in CRE, maybe talk about office, retail? Is it all in market just to give us a little bit of color and maybe comfort in the growth in that portfolio?

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

I think probably, Terry, one of the drivers for CRE in the quarter I referenced our FHA bridge loan program and since the beginning of the year and mostly in the second quarter since the beginning of year, we have booked $30 million in that area. So that is significant and in addition to that, our hospitality, our hotel financing has been strong for some time.

Terry McEvoy - *Stephens Inc. - Analyst*

And then maybe one more. Thanks for addressing M&A earlier in the call. You mentioned the hundreds of banks that are in market. Leon, as you maybe think about the ideal target, is there a unique characteristic on maybe either side of the balance sheet that you find most appealing and are pursuing more than others?

And then as a follow-up, you are in the process of buying a fee generating business. Is your focus on the M&A side very much bank focused at this point? Thank you.

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

Sure. Yes, a couple of thoughts on that. As you look at what the driver for revenue in our Company is today with such strong loan growth, certainly funding is always on our mind. So from the beginning when we have looked at acquisition opportunities we always look at sort of the basics, market fill-in but with our robust organic growth, banks that provide funding opportunities, that is low loan to deposit kind of banks, are attractive to us.

But since we now have an opportunity to build out not just banking but the other platforms as well, a bank that has one or more of the other platforms that we have gets an extra 10 points. A bank with a nice residential mortgage platform, a bank with a trust department does, yes.

So I think wealth, certainly wealth, always is attractive to us and leasing. We've got a leasing platform that is growing very, very nicely now and so we keep our eye open for leasing opportunities as well. So yes, banking with a focus on funding and in-market build out but now these other platforms as well.

Terry McEvoy - *Stephens Inc. - Analyst*

Appreciate that. Thank you.

Operator

Thank you. I'm not showing any further questions at this time. I would now like to turn the call back to Mr. Leon Holschbach, President and Chief Executive Officer, for any closing remarks.

Leon Holschbach - *Midland States Bancorp, Inc. - President and CEO*

All right, thank you all for joining us and if there aren't any more questions, we will press on with our morning. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.
