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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q4 2017 Midland States Bancorp earnings conference call. (Operator Instructions). As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Ms. Allyson Pooley from Financial Profiles. Ms. Pooley, you may begin.

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

Thank you, Daniel. Good morning, everyone, and thank you for joining us today for the Midland States Bancorp fourth-quarter 2017 earnings call. Joining us from Midland's management team are Leon Holschbach, President and Chief Executive Officer, and Jeff Ludwig, 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 section of Midland's Investor Relations website to download a copy of the presentation.

Leon and Jeff will discuss the fourth-quarter results and then we will open the call for questions. Before we begin I'd 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 risk and uncertainty.

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 SEC filings which are available on the Company's website. The Company disclaims any 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 substitute for the most directly comparable GAAP measures. The press release, available on the website, contains the financial and other quantitative information that will be discussed today, as well as the reconciliation of the GAAP to non-GAAP measures. And with that I will turn the call over to Leon.

Leon Holschbach *- Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Allyson, thank you. Good morning, everyone. Welcome to Midland's earnings call. Slide 3 summarizes the highlights of the fourth quarter; we will start there. As with many banks, it was a noisy quarter for us due to the impact of tax reform on our deferred tax asset. We also had a couple of charge-offs that drove our provision expense higher in the quarter.

Relative to the third quarter, the higher provision expense impacted our EPS this quarter by $0.14. But if we strip away the noise, including the acquisition and integration related expenses, we are pleased with the trends we are seeing in our core operating performance. Most notably, our efficiency ratio has improved to 64.6% from 69% last quarter. This improvement was primarily due to expense reductions resulting from the continued realization of the synergies of the Centrue acquisition.

We also had a strong quarter of balance sheet growth with solid increases in both loan and core deposits. As we mentioned last quarter, we were still seeing good loan demand, but we were being more selective in our loan production in order to manage our loan to deposit ratio.

With the pending acquisition of Alpine getting close to completion, we felt comfortable taking our loan to deposit ratio a bit higher and booking more of the attractive lending opportunities we were seeing. Essentially we pre-deployed some of the liquidity that we will be adding.

We are very pleased with the broad based loan production that we saw in the quarter. We had increases across all our major lending areas with the exception of commercial real estate. The strongest growth came in our commercial, construction and consumer loan portfolios.

The commercial loan growth was driven by increased line usage among existing customers as well as some new commercial relationships established during the quarter. Much of the growth in our consumer portfolio this quarter was attributable to the program we have with GreenSky Credit, which we've discussed in the past.

While most trends we saw in the quarter were positive, we had softer quarters from both our commercial, FHA and residential mortgage banking business as well as another small write-down on the value of the residential mortgage servicing rights, which we had moved to held for sale.

The performance in these areas provided more evidence to us that we made the right decision to focus Midland around our core community banking and wealth management businesses. These are more stable businesses with consistent growth trajectories that we believe will reduce the volatility that we've seen in our recent financial performance. Ultimately we believe we are on the right path to a business mix that will enhance the value of the Company for our shareholders in the years ahead.

Admittedly we've had a lot of noise since we became public that has obscured the true performance of the Company. We always operate with a long-term perspective in mind and if that means taking some near-term pain to make the Company stronger in the future, we don't hesitate to take whatever actions we believe are in the best long-term interest of our shareholders.

Since we have come public we have incurred costs to optimize our branch network and to reduce our exposure to the volatility of mortgage servicing rights. We have also had significantly increased the size of the Company through transactions that also resulted in near-term acquisition and integration charges.

Although the noise has significantly impacted our reported results, we've steadily seen improvement in the core performance of the Company. Our revenues are up, our operating efficiency is improving and our level of returns are increasing. And all of those trends should continue in a positive direction after we realize the synergies that we are projecting from the Alpine acquisition.

Over time we feel confident that the steps we've taken to strengthen the Company and increase our earnings power will become more apparent in our reported results. Now I'm going to turn the call over to Jeff and he will walk through some of the details of the fourth-quarter performance.

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Thanks, Leon. Starting with slide 4, I will review our net interest income and net interest margin. Our net interest income decreased by 2% during the third quarter. This was primarily the result of a decline in our net interest margin.

On a reported basis our net interest margin decreased 5 basis points to 7.3 -- 3.73%, which was entirely attributable to the $40 million of sub debt that we added in preparation for the Alpine acquisition. Looking ahead, excluding accretion income, we expect our net interest margin to be relatively flat. Once we add Alpine's balance sheet and complete the purchase accounting adjustments we will provide an update on our margin expectations.

Moving to our noninterest income beginning on slide 5, total noninterest income decreased $1.4 million or 9% from the prior quarter. The decrease was primarily due to lower revenue from our commercial FHA and residential mortgage banking businesses.

Residential mortgage had $1.6 million in revenue this quarter, which reflects the typical decline we see in the fourth quarter due to seasonally slower period for home buying.

As we have indicated, we are in the process of rebuilding our residential mortgage production team by adding originators that focus on our core markets of Illinois and Missouri. We made several additions to the team during the fourth quarter and our goal is to have our staffing back up to its prior level heading into the seasonally strong period for home buying in the second quarter.

Turning to slide 6, I'm going to review wealth management. We had a strong quarter as we added approximately $50 million in assets under administration, reflecting market appreciation as well as net new business. As a result of the growth in assets, our wealth management revenue increased 3.2% from the prior quarter. Measuring the organic growth on a year-over-year basis, excluding the assets added from CedarPoint, our total assets under administration increased by 12% as of 12/31. When the Alpine acquisition is closed our wealth management revenue will substantially increase as our assets under administration will increase by approximately 50%.

Turning to slide 7 and looking at Love Funding, we originated $99 million in rate lock commitments during the quarter and had total commercial FHA revenue of $3.1 million. Our average servicing deposits were $295 million in the fourth quarter, up 9% from the same quarter last year. Our weighted average cost on servicing deposits was just 10 basis points.

As we mentioned on our call last quarter, due to the size of the loans originated by Love Funding, which can cause large swings in originations and revenue on a quarterly basis, we evaluate the performance of this business on an annual basis. Overall for 2017 Love Funding was at the low end of the $18 million to $20 million in annual revenue that we projected for this business, while exceeding the high-end of the 20% to 25% range of profit margin.

Turning to slide 8, we'll take a look at our expenses and efficiency ratio. We incurred $2.7 million in integration and acquisition related expenses in the quarter, as well as $400,000 in loss on the mortgage servicing rights that were moved to held for sale. Excluding these items our noninterest expense decreased $3.4 million or 9% on a linked quarter basis.

The decrease was primarily attributable to a couple of factors. First, we had lower salaries and benefits expense due to a 5.7% decrease in FTEs during the quarter resulting from the continued integration of Centrue. And second, we had lower variable compensation within the commercial FHA and residential mortgage businesses.

In early January we completed the sale of the mortgage servicing rights that we had moved to held for sale, which freed up $10 million of capital that will be used to support the Alpine acquisition.

Moving to the balance sheet on slide 9, we will take a look at our loan portfolio. Total loans increased at an annualized rate of 9% in the fourth quarter. Compared to the end of the prior quarter commercial loans were up 8%, commercial loans were up 10%, and consumer loans were up 8%. The growth in these areas offset a 2% decline in commercial real estate loans.

Turning to slide 10, we'll take a look at our deposits. Total deposits were up approximately $17 million from the end of the prior quarter, although we saw much stronger growth in our core deposit categories. We utilize the subdebt we recently raised to decrease our holdings of brokered CDs by $43 million. When brokered CDs are excluded our total deposits were up $60 million. The increase was driven by growth throughout our commercial, retail and servicing portfolios.

Moving to slide 11, we will look at our asset quality. We recorded $6.5 million in net charge-offs during the quarter, which were largely related to two commercial real estate loans. We charged off $5 million on a credit that we had modified to a TDR in the third quarter of 2016.

As you may recall from our commentary at that time, the tenant in the underlying property was performing well and they continue to perform well. However, the building is part of a retail development that hasn't progressed as expected. As a result our borrower has had to service a larger share of the municipality issued debt.

The additional share of this debt that the property is now burdened with resulted in a lower valuation upon reappraisal which triggered our charge-off. This loan is now being carried at approximately $5 million on our books. It's a unique situation and, unfortunately, given at the cash flow generated by the tenant, continues to be more than enough to service the original terms of the loan.

The second significant charge-off in the quarter was $1 million related to a retail mall property in Central Illinois. The property was recently sold for a price lower than the amount outstanding on the loan. These were the two credits in the portfolio that we were most concerned about. And now that we have taken these charge-offs, we don't see anything else in the portfolio that we think would drive an outsized level of provisioning in the foreseeable future.

As a result of the charge-offs our nonperforming loans decreased by $6.6 million from the end of the prior quarter. Due to the growth we had in the portfolio this quarter, as well as the higher level of charge-offs, we recorded a provision for loan losses of $6.1 million. This provision brought our allowance to 51 basis points of total loans as of December 31. And our credit marks accounted for almost 51 basis points. With that I will turn the call back over to Leon.

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Thank you, Jeff. I will wrap up on slide 12 with some comments on our outlook. We expect to close the Alpine acquisition by the end of February. This will have a significant impact on our business mix.

Within our fee income we are projecting that wealth management service charges and interchange will represent approximately 47% of fee income and 2018, while commercial FHA and residential mortgage banking will comprise just 41%. This is significantly lower than the 61% of fee income the commercial FHA and residential mortgage banking accounted for in 2016.

Within our total revenue mix net interest income, wealth management and service charge and interchange are projected to account for 82% of our total revenue in 2018, up from 65% in 2016.

With a greater percentage of our revenue being derived from core community banking and wealth management, we believe we'll have a higher quality of earnings and less volatility in our financial results. We will also gain valuable scale with the addition of Alpine's operations and we will be highly focused on capturing all of the synergies that we are projecting for this transaction.

We are currently targeting the system conversion for mid July and that will lead to the bulk of the cost savings from the combination being seen in the fourth quarter. With the additional scale and cost savings from Alpine we expect to see an improvement in our efficiency ratio as well.

Another key focus for Midland in 2018 is focusing on those lending areas that generate the most attractive risk-adjusted returns. One of those areas is equipment financing, which is a business we got into with the acquisition of Heartland Bank at the end of 2014. We have grown that portfolio by nearly 80% since then. We like this business a lot as it generates attractive yields and has strong credit quality.

Recently we had a unique opportunity to significantly expand this business through the addition of Fred Van Etten. Fred was the President of Scottrade Bank Equipment Finance prior to Scottrade's sale to TD Ameritrade. Fred has brought over a group of equipment finance professionals that worked with him at Scottrade.

And, in addition to increasing the size of the team that we have in this business, Fred and his group will provide the expertise to expand our offerings to include loans, leases and hybrid product that will enable us to capitalize on more financing opportunities.

The timing couldn't be better for the expansion of this business. With the recently passed tax reform, companies will have an increased capacity to invest in new equipment while also being able to take advantage of accelerated depreciation on their taxes. The combination of these factors, and the strong track record that Fred has leading highly productive teams, makes us very bullish on the outlook for this business.

Of course we will also benefit from the tax reforms through a lower tax rate as well. For 2018 we expect our effective tax rate to be approximately 23%. With the additional earnings coming from our lower tax rate we expect to generate more capital. We have two priorities for the use of this capital.

First, we will be using it to rebuild our capital base following the close of the Alpine acquisition. And second, we intend to continue our 15-year track record of increasing our dividend by at least 10% annually.

In summary, we are very excited about our positioning as we start 2018. We believe it will be a year of strong organic growth as well as seeing the initial benefits of a highly accretive acquisition. And we believe it will be a year that significantly enhances the value of our franchise. And with that we will be happy to answer any questions you might have. Operator would you please open the lines for the call please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Michael Perito, KBW.

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

A few questions from me. I wanted to just start with the credit in the quarter. Can you maybe give us a little bit more color, Jeff for Leon, about additional retail strip center mall type exposure, either direct or indirect, in the portfolio?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Yes, probably total portfolio on that retail commercial real estate side is roughly just a little over $200 million. We don't have properties like these properties. So, in a retail mall this was like the only property we had in the portfolio as well as this retail development property that we have. We don't have those types of loans in the portfolio. So we feel pretty good that that portfolio will perform well as we move forward.

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

Have there been any other instances in that portfolio of even like modest charge-offs were moved to classified status, anything else worth noting?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

No, I think we've actually -- I think in that portfolio we have risk ratings actually a little lower than the total portfolio. So we don't see any issues going forward.

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

Okay. And then how are you guys thinking about I guess taking into consideration what seems like decent organic loan growth aspirations next year? How are you guys thinking about the provisioning rate for 2018?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

With the acquisition of Alpine, that will drive a little more forward provisioning as well. I think anywhere in that $1.5 million probably to $2 million range would be a reasonable place to start.

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

Okay. And then maybe sticking with you, Jeff, for a second, just moving on. I know the Alpine deal is closing a little sooner now into February it sounds like, which is good. But curious if we could just talk about the expense starting point for 2018 maybe excluding Alpine. Where do you kind of see the Midland expense rate starting in the first quarter of 2018 excluding any merger charges and the Alpine expenses just to kind of give us a better sense of what the starting point is moving forward?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Yes, we saw a nice decrease in the fourth quarter on the expenses excluding integration acquisition. The first quarter we will see an uptick. I mean a couple of those -- a big part of that decrease was related to what we'll call permanent items with the Centrue synergies, but some of that was more variable related to the mortgage business variable compensation plan.

So, I would expect the expenses to move up from that $33 million number. We brought a larger leasing team on right at the end of the fourth quarter, so that will drive a little bit of additional expenses. I think something more in that $36 million range more like where the GAAP number was would be a reasonable starting point.

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

Got it. Thanks. And then I guess, Leon, just any thoughts on -- you made the general comment about strong organic loan growth. Can you maybe give us a sense of this team that you brought over from Scottrade, what type of book and production levels they were doing?

And then any other more specific thoughts I guess overall on what you think are real estate expectations on the organic growth side. I mean, it seems like the Alpine deal will give you a little liquidity to deploy. So just curious what you guys think you could do with it.

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Yes, I will give you a couple of comments, Mike; and then, Jeff, jump in on this if you want to. But looking at -- looking backward at Alpine's recent growth, the last few years they have had good solid loan growth in their own portfolios. They are positioned in one of the larger MSAs in the state and they are the lead bank in that market.

So my expectation is that -- and bringing the sales force with them, my expectation is that they will continue a good trajectory of growth in that state line market. The leasing company, and I will let Jeff add some flavor to what we are thinking about for numbers, but we expect the leasing team to produce a nice lift itself. The combination of those two and good growth across the Company. But Jeff, what are we looking for ballpark from the leasing companies in terms of new production?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Yes, so a good team that Fred brought on with a good number of salespeople. So I think we are looking at $125 million to $150 million worth of production out of that team this year. So pretty good production.

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

Got it. And then just one last quick one from me. Just do you have the closing number on the resi platform? I think it was $63 million last quarter. And what percentage of that was purchased?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Are you talking about mortgage servicing rights?

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

No, no, just the residential mortgage gain on sale, like the closings you had in the quarter and what percent of that was purchased? I didn't see it in the slide deck.

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Yes, we will get it for you.

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

All right, perfect. Thanks, guys. Appreciate it.

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

We are looking for it.

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

No problem. Thanks.

Operator

Terry McEvoy, Stephens.

Terry McEvoy - *Stephens Inc. - Analyst*

Maybe let's just start with credit. Could you talk about watch list delinquency trends within the CRE portfolio ex the retail segment, that call it $1.2 billion portfolio?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

I don't know about the breakout, but the global delinquency trend has been real solidly stable and in that 45 basis point range with real good stability for actually many quarters. We'll see if we can get you a CRE breakout number while we talk, Terry.

Terry McEvoy - *Stephens Inc. - Analyst*

Okay. And then I guess on the commercial FHA mortgage, have you made adjustments to the expense base at all to reflect the decline in revenue? I know you said you are adding to the mortgage production side through new lenders, but what about just that core expense run rate?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Yes, so in both platforms, little tweaks in expenses. But on commercial FHA and [loan] funding a little bit here, a little bit there. But we believe that we have a -- the operating platform should operate and generate pretax profit margins in that 20%, 25% range if the revenue is in that $18 million to $20 million. So I think we feel good about that expense base in that business.

On the residential side, we held -- I'll say we held the back office last year with anticipation that we were going to be getting -- Alpine's coming in. We have -- and we're going to begin to rebuild that business.

So we didn't make -- last year we didn't make adjustments to the back office with the anticipation that we are going to get back to where we were. So it's this -- you let people go for two quarters, then you've got to hire them back, that gets a little tricky. So if we thought that long-term that this wasn't going to rebound we would've taken the expenses out.

Terry McEvoy - *Stephens Inc. - Analyst*

And just the last question (multiple speakers).

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

We think the expenses that we have in the mortgage business today supports our growth next year without adding new back office expense.

Terry McEvoy - *Stephens Inc. - Analyst*

Okay. And just my last question on Love Funding, tax reform. Did that change the growth outlook, the profitability dynamics at all of Love Funding? And if so, to what extent?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Terry, this is Leon. No, not in particular. And I've appreciated that there's been lots of focus on the impact on the tax credit aspect of that business. So two points there. One is that within Love Funding the tax credit driven deals are not a big proportion of the business.

But more importantly, and appreciating that most of the deals structure are partnerships and LLCs. The beneficial impact of the tax return for the accelerated depreciation -- so for example, of every piece of the equipment that would be in an assisted living center for example, there is a benefit there, not a penalty.

And to the extent that these are other of C corp entities, and most of them are that are the actual borrower, they're capping at I think -- and I'm not a tax expert, here's my tax disclaimer -- I think the cap is at now 25% for pass-through.

From the individual investor in a multi-family or an assisted living deal, it's actually likely a net improvement in the tax law changes. So, the high level answer to your question is no, not impacting projections. Getting down into granularity could very well be that it's a net benefit.

Terry McEvoy - *Stephens Inc. - Analyst*

Got it. Thank you.

Operator

Kevin Reevey, D.A. Davidson.

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

Leon, you mentioned earlier that (inaudible) utilization was up. Can you provide us with what the percentage was this quarter and what was it last quarter?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

No. No, but you are welcome to call the CFO back later and grill him on that. I'm sorry, Kevin, I don't have that at my fingertips.

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

We can try to find it here in the next couple minutes, but --.

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

Okay. And then what was the split in the growth between new and existing customers on the commercial side? On the growth side?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

Yes, just that. Increased line usage and winning new customers. Just that.

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Yes, probably half-and-half type of rough percentages.

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

And then as far as the mortgage lenders that you've been hiring, how many did you add in the fourth quarter and how many more do you think you need to bring on board in 2018 to get to where you need to be?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Yes, so I think we brought on four or five in the fourth quarter and we are looking to bring on roughly 10, maybe 10 to 15 in the first quarter to get us to about where we were pre losing that Colorado mortgage team in the second quarter of last year.

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

Okay, great. Thanks.

Operator

(Operator Instructions). Andrew Liesch, Sandler O'Neill.

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

A question on the loan growth here just related to geography. Is there any part of your footprint that's stronger than any other or is it just broad-based across everywhere?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Yes, I think it's pretty broad-based. We kind of cut our business into four different regions and we see it coming from all areas. So we think that's a good sign.

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

Okay. And then the consumer loans, the GreenSky loans, they can be lumpy from quarter to quarter. Is that something you can just turn on and off depending on your appetite for it? Or how do those loans come in on the balance sheet? Is there a way to easily model that?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Yes, so it's the former part. So we kind of give them a target balance that we'd like them to hit and they bring it to that balance and they maintain. And then the next quarter goes by, if we want to raise it we raise it, they bring the balance up to that number. So we moved the number in the fourth quarter it was the Alpine, kind of this pre -- prefunding some of the Alpine liquidity. We moved the target up and it brought more balance in.

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

Got you. All right, thank you.

Operator

Michael Perito, KBW.

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

Jeff, do you mind just repeating your margin guidance comment that you made in your prepared remarks? I just want to make sure I have it down correctly.

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Let me look. Real quick on the mortgage side while I'm getting back to that, Mike, about $60 million in secondary loan production and 72% of that production was purchased.

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

Thank you.

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Yes, so we said excluding accretion we see margin relatively flat. We'll see -- there will be a little pressure on the margin with the tax change because our margin is on a text equivalent basis. So there's a little bit of pressure there. So that's one of the reasons we say it's going to be relatively flat on an ex-accretion.

Alpine's going to roll in at the end of February as we assess the credit market and see how that's going to roll through the income statement moving forward. It will be fairly light in the first quarter because it will only be in here for a month and then the next quarter it will start to kick in. As Centrue is going to begin to roll down that one's going to come in and then roll down, but --.

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

Got it. And just future movement in the short end of the curve, fed fund hikes. Any thoughts on what the impact is at this point? My guess is the benefit is becoming less and less. But is there still some benefit you think you would achieve if the short end keeps moving?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

Yes, we see the benefit as we have adjustable-rate loans that are adjusting based on short-term rate movements. And we are seeing -- we continue to see that, but we are also seeing the creep on the deposit side as well. So we are not seeing big benefits in the margin.

And where we are at today, we are out there generating core deposits. We have different rate promotions going on to bring those deposits in. So we are seeing a little bit of deposit rate pressure.

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

Got it. Thanks for taking my follow-up.

Operator

[Eric Grublich], [Bank Investor].

Eric Grublich - *Bank Investor - Analyst*

Could you refresh my memory on something? Your mortgage servicing rights, a little bit of the mark it took in the quarter, was that purely rate related or was there something else? And given the fact that 10 years up about 20 basis points or so from year end; would you expect the existing portfolio that you have on balance sheet to be marked up?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

So what was held for sale, it was sold early January. So the true up, if you will, between the negotiated price and what was there when it was actually sold is the difference. So loan balances were down a little bit. That was a true up in the sale price on January 1.

Eric Grublich - *Bank Investor - Analyst*

Some pay off for amortization related to when it was actually sold. So those are gone now? We won't see them next quarter?

Jeff Ludwig - *Midland States Bancorp, Inc. - EVP & CFO*

And we still have a small piece of resi -- probably roughly $4 million of mortgage servicing rights left. Rates are moving up. I wouldn't think anything there material on an up rate movement because there's not a lot of balance there.

Eric Grublich - *Bank Investor - Analyst*

No, that's fine. And then just one other question I had for you on the credits that you mentioned that you charged off in the quarter. I don't know if you've mentioned this or not, I got sort of temporarily disconnected or distracted on the beginning of the call. Were those your own homegrown loans or did they come from acquisitions, acquisitions of other banks?

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

This is Leon. So the one in Central Illinois in fact came -- these are both credits that have been on the books a long time. The smaller one, the Central Illinois one was acquired in the AMCORE acquisition which was eight years ago. And that's when we acquired it but it had been on their books for a long time. It was a 1980s vintage retail mall between -- about halfway between two Central Illinois towns. So that has been on the book a long time.

The second one way where -- as Jeff was characterizing, the underlying tenant is strong, national franchise, continues to perform well. And that was booked by us about eight years ago as part of a larger commercial development at the state capital. And just a classic stalled commercial real estate development rolled out at the beginning of what we have begun to characterize as the Great Recession. But yes, both of those have been on the books for a long time; one originated by us, one inherited in a deal.

Eric Grublich - *Bank Investor - Analyst*

Okay, thanks for that. Thanks for going over that again. Appreciate it (multiple speakers). Thank you.

Operator

And I am not showing any further questions at this time. I would now like to turn the call back over to management for any for the remarks.

Leon Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, President & CEO*

All right, so thank you all for joining us and we'll look forward to talking to you again in a quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program and you mail disconnect. Everyone, have a wonderful day.