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PRESENTATION

Operator

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

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

Thank you, Amanda. Good morning, everyone, and thank you for joining us today for Midland States Bancorp's Second Quarter 2017 Earnings Call. Joining us from Midland's management team are Leon Holschbach, President and Chief Executive Officer; Jeff Ludwig, Executive Vice President; and Kevin Thompson, 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 Webcasts and Presentations page of Midland's Investor Relations website to download a copy of the presentation.

Leon, Jeff and Kevin will discuss the second quarter results, and then we'll 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 risks and uncertainties. Various factors could cause the 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, as well, contains the financial and other quantitative information to be discussed today, as well as the reconciliation of the GAAP to non-GAAP measures.

And with that, I'll turn the call over to Leon.

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, CEO, President, Vice Chairman of Midland States Bank and CEO of Midland States Bank*

Thank you, Allyson. Good morning, everyone. Welcome to Midland. Slide 3 summarizes the highlights of the second quarter. Clearly, the most significant event was the closing of the acquisition of the Centrue Financial Corporation. With this acquisition, we've increased the size of the company by about 1/3, while deepening our market presence across Northern Illinois. The integration has gone smoothly so far, and we haven't had any surprises from either a personnel or a customer standpoint. And we've been very pleased with the quality of the talent that we've added. Although this is the largest acquisition we've done. It's a very straightforward integration without much risk associated with it, given the overlap we have in our footprint and the similar approach we have to community banking. Because of that overlap, and the operational redundancies that it implies, it's one of the rare acquisitions these days that offers an opportunity for EPS accretion in the 8% to 9% range. It's notable that our tangible book value per share increased during the quarter, in which the transaction closed. We expect to complete the integration and system conversion in September. This should put us on track to begin realizing the synergies that we projected for this transaction, beginning in the fourth quarter of 2017.

Turning to our financial results. We reported $0.20 per share in the second quarter. When our integration and acquisition-related expenses are excluded, then we have $0.51 per share in adjusted earnings. In aggregate, we recognized $1.7 million in MSR impairment charges in the quarter. When these charges are excluded, then we have $0.58 per share in earnings. We are seeing positive trends in most areas of the business. Through the first half of the year, we've delivered annualized loan growth of approximately 15% on an organic basis. Given this strong loan growth and the partial quarter contribution of Centrue, our spread income increased by more than 7% over the prior quarter. This helped to offset lighter-than-expected non-interest income from our commercial FHA and residential mortgage businesses, partially due to the negative impact of the MSR impairments. However, we continue to see a significant increase in our wealth management revenue, due to both organic growth and the acquisitions that we've made over the past few quarters.

Now I'll turn it over to Kevin, and Kevin, if you will, some detail on the second quarter performance.

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

Thanks, Leon. Starting with Slide 4, I'll review our net interest income and net interest margin. Our net interest income increased by 7.1% from the first quarter. This was primarily the result of higher interest income on loans, due to our organic loan growth and the partial quarter contribution of Centrue. The impact of the higher average loan balances was partially offset by a decline in our net interest margin, which decreased by 17 basis points on a reported basis due to a $1.4 million decline in accretion income. Excluding accretion income, our net interest margin increased 5 basis points due to higher average yields on both loans and investments. During the second quarter, excluding accretion income, we saw a 6 basis point increase in our average loan yields, while deposit costs increased just 2 basis points, as we are seeing a net benefit from the fed rate increases. The Investment portfolio also benefited with the 12 basis point increase in the investment yield on a linked-quarter basis.

Moving to our noninterest income on Slide 5. Total noninterest income declined $2.7 million or 16.6% from the prior quarter. MSR impairments negatively impacted revenue in the commercial FHA and residential mortgage businesses. Cumulatively, changes in MSR evaluations accounted for a $1.6 million swing in revenue compared to the prior quarter. We saw linked quarter increases in most of our other fee generating areas due to the growth in assets in the wealth management business and the partial quarter impact of Centrue.

Turning to Slide 6. We'll take a look at our expenses and efficiency ratio. We incurred $7.5 million in integration and acquisition-related expense in the quarter. Excluding these charges in both quarters, our noninterest expense increased $700,000 or 2.2% on a linked-quarter basis. This increase was attributable to $1.6 million in expenses from the partial quarter impact of Centrue's operations. This was partially offset by a decline of approximately $1 million in operating expense, related to the rest of Midland's operations, as we continued to drive cost savings and efficiency improvements through our operational excellence initiative. On a year-over-year basis, excluding integration and acquisition-related charges as well as expenses we incurred last year associated with the payoff of subordinated debt, our noninterest expense increased less than 1%. This was all achieved, despite the addition of Sterling Trust, CedarPoint Investment Advisors and the partial quarter impact of Centrue.

Moving to the balance sheet. On Slide 7, we'll take a look at our loan portfolio. Total loans were up $729 million from the end of the prior quarter. $688 million of the increase came from the acquisition of Centrue and the remaining $41 million came from organic growth in the portfolio, most notably in the residential mortgage portfolio. While we're still in the process of completing our purchase accounting adjustments, we recorded a preliminary credit mark of 1.6% on the loans acquired from Centrue.

Turning to Slide 8, we'll take a look at our deposits, which were up $806 million from the end of the prior quarter, with $742 million coming from Centrue. Within the noninterest-bearing deposit category, we had an increase of $253 million, with $156 million coming from Centrue. The remaining period-end increase was largely related to the fluctuations that occur in the ordinary course of business for Love Funding as well as the warehouse line customer engaged in FHA lending.

Moving to Slide 9. We saw improvement across all our asset quality metrics. Our nonperforming loans decreased by $1.3 million from the end of the prior quarter. Our net charge-offs were just $839,000 or 13 basis points of average loans. And we recorded a provision for loan losses of $458,000 in the quarter, which primarily covered the growth in loan portfolio. This provision brought our allowance plus credit marks to 98 basis points of total loans as of June 30.

I'm going to turn the call over to Jeff now, who will talk a little bit more about the performance of our major business units. Jeff?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - EVP and President of Midland States Bank*

Thanks, Kevin. I'm going to start on Slide 10 with Love Funding. We originated a $152 million in rate locked commitments during the quarter, which is lower than last quarter. Over the full year, we continue to expect the performance of Love Funding to be relatively consistent with last year. As we have indicated in the past, the commitments that Love Funding book tends to be very large and the difference of just 1 or 2 deals can create significant swings from quarter-to-quarter. During the second quarter, we received a payoff on a large loan that was in our servicing portfolio. Due to this payoff, we recorded approximately $850,000 in mortgage servicing rights impairment. Including this impairment charge, our commercial FHA revenue was $4.2 million in the second quarter. Our Love Funding pipeline continues to be at a strong level. Love Funding continues to provide a valuable source of low-cost funding and our average servicing deposits totaled $304 million, up 8.7% from the prior quarter and 13.9% from the same quarter last year. Our weighted averaged cost on servicing deposits was just 9 basis points.

Turning to Slide 11, we'll look at our residential mortgage business. We had $2.3 million in revenue this quarter. This includes approximately $800,000 in MSR impairment charges due to an increase in prepayment speeds that we experienced during the quarter. Overall, we had a strong increase in total residential mortgage loan production, which is consistent with the seasonal strength typically seen during the second quarter, including both the production that we retained for our portfolio and the loans we originate for sale. We had $173 million in total production in the second quarter, an increase of 66% over the first quarter. However, the production this quarter was more heavily weighted toward our portfolio loans. In terms of loans we generate for sale, we have $78 million in rate locks during the second quarter, which was essentially flat with the last quarter and lower than our expectations. The lower production was due to the departure of our mortgage banking team in Colorado, which typically accounted for about 25% of our revenue each quarter. This was a team that came to us as part of the Heartland Bank acquisition, and we do not have plans to rebuild the team in Colorado now that they have left. From our perspective, it makes more sense to focus our residential mortgage banking business on markets closer to our community bank footprint. Given the smaller team we have in place, we would expect our residential mortgage banking revenue in the third quarter to be slightly lower than the level we saw in the second quarter excluding any impairment charges, before the seasonal decline we typically see in the fourth quarter each year.

Turning to Slide 12, we'll look at Heartland business credit, our equipment leasing business. This business continued its consistent performance and generated $23 million in originations during the quarter. The total lease portfolio has grown by 14% over the past year. We continue to see very attractive yields in this business with average rate on the portfolio being 5.34%, excluding accretion income.

Turning to Slide 13, we'll take a look at wealth management. This was our first full quarter with the operations and team we added in the CedarPoint Investment Advisors acquisition. As a result of the increase in assets under administration, our wealth management revenue increased to $3.4 million, up 19% from the prior quarter. This also represents an 82% increase in wealth management revenue over the second quarter of last year. Outside of the impact of the acquisitions, we're seeing solid organic growth in the wealth management business. Excluding the assets added from

Sterling Trust and CedarPoint, our total assets under administration were $146 million, or 12.2% higher, at June 30, 2017, than they were at the same time last year.

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

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, CEO, President, Vice Chairman of Midland States Bank and CEO of Midland States Bank*

All right. Thanks, Jeff. So we'll wrap up on Slide 14 with some observations on our outlook. One of the big developments recently was the passing of a new budget in Illinois, which included an increase in the state corporate tax rate. In terms of the direct impact on us, we anticipate that our effective tax rate will increase by approximately 30 basis points, so it's pretty manageable. As far as how a higher state tax rate will affect the appetite for companies to invest and grow their businesses, it's really too early to tell. However, we have dealt with fiscal challenges at the state and local level for a long time in Illinois, and we've seen that the business climate has been pretty resilient, so we wouldn't expect to see any significant changes anytime soon. In terms of the second half of the year, we are focused on continuing to generate organic growth, our pipelines look healthy and should support the full year organic loan growth of 8% to 12% that we are targeting. So we should continue to see solid growth in spread income. With the exception of residential mortgage banking, we should see positive trends in our other fee generating businesses over the second half of the year. Another key focus during the second half will be the Centrue integration and ensuring that we harvest all of the synergies we've projected for the transaction. This will put us in a good position to deliver a strong year of earnings growth in 2018. And finally, we continue to evaluate potential M&A opportunities. With Centrue being a relatively straightforward integration. It won't prevent us from looking at other transactions that can enhance the value of our franchise.

With that, we'll be happy to answer any questions you might have. Operator, go ahead and open up the lines.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Kevin Reevey of D.A. Davidson.

Kevin Kennedy Reevey - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

So focusing on the team in Colorado that left as part of your residential mortgage production team? Can you give us some color as to what happened there? And then, specifically, what markets closer to home do you intend to focus your energies on? And what are your plans, if any, to ramp up that business from a staffing standpoint?

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, CEO, President, Vice Chairman of Midland States Bank and CEO of Midland States Bank*

Sure. Kevin, this is Leon. So I think we might have mentioned in the press release, I cannot remember now. But that entire time came to Heartland Bank just months before the closing of our deal. So it was not as seasoned -- even with Heartland Bank, it wasn't a Heartland Bank seasoned team. And what our expectation is, is that they went elsewhere for greater compensation would be my guess. It's unlikely that we would have chose to build out a significant mortgage team with just a single branch in Denver. And so our notion is, as Jeff suggested, to -- because we like the home loan business. We think it's real important to community banking. But our notion will be to build -- rebuild that team out in that Illinois and contiguous states, sort of center of our market as we go forward.

Kevin Kennedy Reevey - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Okay. And then on the loan growth side. It looks like on a core basis, your loan growth slowed in the second quarter versus the first quarter. Any color there? Was that more on the -- was that mostly due to the commercial FHA? And do you see the loan growth picking up in the third quarter?

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

Kevin, this is Kevin Thompson. So it is not due to the commercial FHA since we sell all those loans. We are seeing -- of course in the first quarter, we had a large loan growth due to our Green Sky portfolio, which we spoke about last quarter. So year-to-date, we're seeing a 15% loan growth. We're still guiding to the 8% to 12% loan growth for the full year. We are seeing in the market some competition around loan pricing. And we are very careful to keep our loan pricing at a level that gives us a proper return. We do not compete for loans that do not give us good ROE, that we expect. So we're still seeing a healthy market. We're still seeing good opportunities. But where we are, our loan-to-deposit ratio is at 96%. It gives us the opportunity to really think about bringing on good loans to our portfolio.

Operator

And our next question comes from the line of Terry McEvoy of Stephens.

Terence James McEvoy - *Stephens Inc., Research Division - MD and Research Analyst*

I'd just start with expenses. Leon, you talked about the deal synergies happening in the fourth quarter, which I assume you mean cost saves. So I was wondering if you could give us some indication of kind of third quarter expenses, would that be relatively -- like it wouldn't be flat, the additional 2 months of Centrue? So maybe some help with 3Q expenses? And then in terms of 4Q, how quickly can you get to the targeted cost saves that were announced when you announced the acquisition?

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, CEO, President, Vice Chairman of Midland States Bank and CEO of Midland States Bank*

Sure. So I'll give a little bit on that, and then I'll will make the CFO do his job. So quickly, this quarter and next quarter, first in the category you didn't ask about, but the onetime costs, and those are coming in right where we expected them to be. So we didn't and don't expect any surprises in that category of the onetime expenses. Our guys did a good job of evaluating the deal in that respect. And then the cost saves, keeping in mind that the actual data conversion, which is the point at which we release the most significant number of employees and of course, it's the single largest cost save, it's scheduled for the Labor Day weekend. So it'll only be through September -- through the month of September that we engage in the release of a pretty significant number of people. And then also, in that third quarter, the resolution of some of the other expenses that'll go away giving us a clearer look in this -- that was my observation, giving us a clearer look as we go into the fourth quarter. But Kevin, you add something to that.

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

You bet. So the company has a really good core competency at implementing these acquisitions. It's part of our strategic plan, and we are really on track towards what we thought the cost saves would be, the timeframe and it's going very well. So we expect to have the cost saves in by the end of the third quarter, fourth quarter should be a good run rate to launch us off into 2018 to really see the 40% cost saves that we expected in this deal.

Terence James McEvoy - *Stephens Inc., Research Division - MD and Research Analyst*

And then as a follow-up. Jeff, I think, you said if I understand correctly that the Love Funding revenue in '17 should be relatively consistent or flat with '16. I believe prior commentary had been to expect some growth year-over-year. Is it just more the lumpiness and deals being pushed out that you're being a little more conservative? Or is there something changed within the business itself for the basis behind that -- changing comments?

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - EVP and President of Midland States Bank*

Yes. I wouldn't say there is the change in the business. I commented that our pipeline still remains relatively strong. Even if we look at the earlier side of our pipeline, which we don't talk a lot about, we are seeing more activity in the earlier stages of the pipeline. So that's good for future business. And as you know, these pipelines tend to have a long window from when you start having conversations with the client to getting a loan closed and sold. So from a business point of view, we don't -- we're not seeing anything that would concern us. But there is -- as we continue to say, there's -- that the deals are big. As deals kind of move from quarter-to-quarter, you do see revenue up and down. If you add the impairment back this quarter, we had a $5 million revenue quarter, which is a pretty good quarter for that business. You put 4 of those together, it's $20 million business and then you have a couple quarters like you did in the first quarter where you had like $6.7 million of revenue and you are a low $20 million revenue businesses, and that's kind of what we did in '16. So kind of -- and this is a business that has a fairly fixed pie, right, in terms of the market. And for us to grow our revenue pretty dramatically, we have to take it from others. So that's a tougher business as well. So I don't think we see any structural changes or differences in the business, but kind of want to guide that revenue is not going to be a big increase driver in that business right now.

Operator

And our next question comes from the line of Michael Perito of KBW.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Maybe a quick question, kind of, on the core margin, saw a nice -- really kind of a nice trajectory over the last few quarters here. You had another rate hike in June. Just kind of curious what the near-term expectations are, I guess on a couple of fronts I mean: one, do you think there is still some room up on the core margin in the back half of the year? And two, what have you seen in terms of deposit pricing in your markets, I mean has there been any, kind of, showings of competition picking up?

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

Michael, this is Kevin. On the pricing, NIM, to your point, increased 10 basis points in the first quarter, 5 basis points this past quarter as we've had multiple Fed rate increases. Our portfolio is asset sensitive, and we're seeing that play out. We expect with the latest increase in late June to continue to see an increase for this quarter. We do have some variable rate loans, some adjustable rate loans that will adjust over time. So we do see that same trajectory continuing. From a deposit pricing perspective, we're watching this very closely both locally, regionally, throughout the country, we're watching the competition. We are not seeing systemic pressure on our deposit pricing. Of course, we went up 2 basis points this quarter. Year-to-date, we're at about a 10% beta in our deposit pricing, this quarter 8%. And a couple of tailwinds we have there: We have Centrue coming on board, which has a less expenses to deposit pricing portfolio. And so that should benefit us going forward. We're not seeing the systemic pressure, yet, but we're watching it closely; Back in the last rate cycle -- increasing rate cycle back in the 2004 through 2006 timeframe, we saw really good stickiness. We have good customer relationships, and the first 200 basis point increase in deposit pricing, we only saw a 15% beta and eventually, we amassed the market to a 50% beta. But we see good runway and see good NIM spread going forward.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

And I guess, although Centrue's margin was lower than yours though, correct? Wasn't it in like the 330, 340 range. So I mean do you still think with Centrue on board in the next couple of quarters you could march that margin up modestly in the current -- with the June hike and the current rate environment?

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

Yes, Centrue's margin was slightly lower. Their deposit pricing, however, is quite a bit lower than ours. A lot of opportunity there on the loan side. Yes, they have lower loan yields. But as those loans reprice as new loans come on board, we will use our pricing model, not Centrue's, and be able to kind of rightsize those for our bank, we don't have to compete on the same front as Centrue did. We have more options, more larger footprint to be able to get the pricing that we prefer.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Okay, thanks Kevin. That's helpful. And I guess, one more question just as it relates to Centrue. I mean any -- have you got -- I don't know if you've done some already, but if not any plans to kind of change any aspects of kind of their balance sheet or capital that you guys inherited around over the next couple of quarters here, whether it be, kind of, reworking the investments book or anything like that we should kind of have on our radar?

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

Yes, we -- there will be small changes as we go forward. Of course we just brought Centrue on beginning of June. So then investment portfolio might change a little bit as we optimize that for the combined portfolio. They have a really good balance sheet and it's why it was such a good acquisition. So there won't be drastic changes, but there will probably be some opportunities to optimize the operating leverage through the investment portfolio.

Michael Anthony Perito - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Okay. And then, maybe just one just last one for Leon, high-level question. Sorry if it was mentioned in your remarks, I had to jump on and off the call quickly there, but just any kind of update on the M&A pipeline, but also just kind of M&A environment. I mean, is it still one where you feel like there are good opportunities out there? Has pricing expectations moved? Or just has the amount of books out there changed at all, any color there would be helpful?

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, CEO, President, Vice Chairman of Midland States Bank and CEO of Midland States Bank*

Sure. So we still continue to have quality conversations. There are and will be opportunities. We've always made it clear that, besides the strategic past we have about M&A, that we are sitting dead center in the largest collection of banks in the nation here in Illinois. So there'll be lots of opportunities. The phone keeps ringing, we keep having good conversations. In terms of value expectations, I think, we're all seeing that the average price on deals is creeping up a little bit if there's quality franchises involved. But so far, we have not heard anything in the pricing conversations that make us want to run away.

Operator

(Operator Instructions) And our next question comes from the line of Andrew Liesch of Sandler O'Neill.

Andrew Brian Liesch - *Sandler O'Neill + Partners, L.P., Research Division - Director, Equity Research*

Just a couple of housekeeping questions for me, please. Just the $7.5 million of deal cost, just curious if you can just break that out by line item, how much was in each one?

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

We might need to do that -- well maybe we can do that offline with you.

Andrew Brian Liesch - *Sandler O'Neill + Partners, L.P., Research Division - Director, Equity Research*

Okay that's fine. And then just the other fee income line was lowest that it's been in quite some time, just curious what's in that? And then why -- what's a better run rate for this line?

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

There are several items going through there. We have a BOLI portfolio that had some income. We have Merchant Services. We also get some fees from our bridge loan program with Love Funding. And so there's some seasonality that can happen in that line. There's just some seasonality and we expect going forward that can go -- be up and down, no risk there in that line.

Andrew Brian Liesch - *Sandler O'Neill + Partners, L.P., Research Division - Director, Equity Research*

Got you. And then just on the tax rate, recognizing that's going to be a slightly higher because of the State of Illinois changes. But the last couple of quarters, it's been lower than what I've been forecasting, so just what tax rate do you think we should be using going forward?

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

We guided last quarter and it's -- I always hate to forecast tax rates because so many things can happen, and it's complex. We guided last quarter 33% kind of base rate and that excludes any employee stock exercising and so forth, so 33% as a base rate. Of course, we have the Centrue acquisition so our GAAP net income is much lower. We get a benefit from that, and we have deductions against taxes that are fixed rate. So we end up with a much lower rate. So I think 33% good base rate and it's hard to estimate and forecast what the employee stock option exercises will be.

Operator

And we do have a follow-up question from the line of Terry McEvoy of Stephens.

Terence James McEvoy - *Stephens Inc., Research Division - MD and Research Analyst*

Just thinking about the third quarter, now that -- with Centrue, do you expect the purchase accounting accretion to possibly rise here in the third quarter? Or do you think the benefits of that deal were fully visible in Q2?

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

Yes, so we are just implementing Centrue. We've done for this quarter our best estimate of what our fair value accounting or purchase accounting looks like. And by third quarter, we'll have better estimates of that. So far, what it looks like is our accretion income should look fairly consistent to this quarter going forward based on the way the fair value accounting is coming in. We'll update that in third quarter if there are big changes.

Terence James McEvoy - *Stephens Inc., Research Division - MD and Research Analyst*

Okay. That's helpful. And then just my last question. 2/3 of the loan portfolio's commercial, commercial real estate, it doesn't sound like there was much growth in the second quarter and it sounds like competitive -- the competitive landscape is maybe making you more cautious on growth in the second half of this year. So to get to that full year run rate, do you expect the consumer or the residential portfolio to be a driver of growth? Or are there any pockets on the commercial side or opportunities to be additive in the second half of the year?

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, CEO, President, Vice Chairman of Midland States Bank and CEO of Midland States Bank*

Yes, this is Leon. So we talked about a couple of things, though -- I will add a little bit more color. So the leasing division, though it's portfolio is not gigantic at a couple of hundred million, it continues to grow very nicely. And because -- as Kevin pointed out, because we're at 15% at the mid-year point, just doing the math, as they say, even a pair of 7% or 8% growth quarters will still land us inside that 8% to 12% for the year. So I feel fine about the math working out to 8% to 12%. And then as we go forward, we're just going to have to see what level of opportunity for growth comes with the Centrue footprint and how much that adds. We don't have a good gauge on that, what we can expect for growth contribution from them and then of course, depending on how things are going in the economy. But with a GDP growth at 2%, if it is leveled out to an 8% growth rate, I would consider that a great performance. So we'll see. I think we end up in the 8% to 12% guidance by the time we finish the year. And yes, it looks like things are slowing down a little bit. We'll just have to monitor that and may be talking to you guys quarter-over-quarter.

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

Yes, and then may be add to that. We are at a higher level of loan-to-deposit, so we're being a little more selective on the loans that we're going to put on our balance sheet. So that's part of it too.

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, CEO, President, Vice Chairman of Midland States Bank and CEO of Midland States Bank*

Sure, if we could find a deal with a substantial amount of free core deposits, it would be relatively easy to turn the faucet up on that. So yes, Jeff, we're guiding to that supply and demand on our own balance sheet as well.

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

And, we're real focused internally right now on gathering deposits. So as we gather more deposits, we'll make more loans.

Operator

Our next question comes from the line of Dan Oxman of Jacobs Asset Management.

Dan Oxman - *JAM Equity Partners, LLC - Investment Professional*

Just quick follow-up question on M&A. What's your view on announcing another deal before Centrue is integrated and converted?

Kevin L. Thompson - *Midland States Bancorp, Inc. - CFO and CFO of Midland States Bank*

I'll say -- I think, we're real focused right now getting Centrue. We're essentially 30 days out. And it's kind of all hands on deck right now. Meetings daily, steering committee meetings weekly to ensure that Centrue is integrated, conversions are appropriate -- are done very, very well. And stabilized within that -- we look at a 30-day window after the conversion to make sure it's stabilized. So real focused there, continuing to have conversations with folks as we -- as just part of our plan.

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, CEO, President, Vice Chairman of Midland States Bank and CEO of Midland States Bank*

And then Dan, this is Leon. And I'd add to that, I touched on it in my comments, but compare these two deals of Centrue versus Heartland. On the balance sheet, they look about the same. The look like a pure billion dollar deals. Centrue laid across our footprint up north. We had an opportunity to consolidate 5 offices, which we'll affect you in the next 30 days or so as well. Very, very core bank, take deposit, make loan kind of business. Asset quality nice and tight. So it's going to be a "easy integration." And has looked like that.

Jeffrey G. Ludwig - *Midland States Bancorp, Inc. - EVP and President of Midland States Bank*

Maybe easier.

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, CEO, President, Vice Chairman of Midland States Bank and CEO of Midland States Bank*

Yes, if anybody calls me later, and says I said it's going to be easy -- So I think we'll be ready pretty quickly after the Centrue deal gets the data conversion done and we get a month or 2 behind that.

Operator

And at this time, I'm showing no further questions. I'd like to turn the conference back over to management for any closing remarks.

Leon J. Holschbach - *Midland States Bancorp, Inc. - Vice Chairman, CEO, President, Vice Chairman of Midland States Bank and CEO of Midland States Bank*

I think that's it. Thanks, everybody, for joining us. And we'll talk to you again in a quarter.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everybody, have a great day.
