Midland States Bancorp Inc.

March 5, 2009

Mr. Neil M. Barofsky
Special Inspector General - TARP
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220

Re: CPP/TARP

Dear Mr. Barofsky,

Following is our response to your February 6, 2009 letter.

After several Board meetings of discussing the merits of participation in the special CPP (Capital Purchase Program) under the umbrella of TARP, we held a special Shareholder meeting of January 12, 2009 to create a new class of preferred shares to accommodate the $10.2 million investment by the U.S. Treasury into Midland States Bancorp, Inc. The sale of the stock was effected on January 23, 2009 and is maintained on our books as a separate line item within our capital account. At this time the CPP preferred stock is the only issue of preferred stock at our Bank.

Our initial intended use of the CPP capital was three fold; First and foremost to assure the safety and soundness of our Bank in a time of tremendous volatility and uncertainty in the economy and in particular in the financial sector. While always exceeding "well capitalized" levels of capital the Board recognized the inherent risks of the times and weighing the probability of additional regulatory burden as part of the cost of participation, decided to take part.

Second, we were determined that the credit grid lock, both commercial and consumer, spreading through the country would be abated in the communities we serve if we had sufficient resources to meet good quality credit demand. We currently serve eleven small communities in Southern Central Illinois which rely on community banks such as ours for most of their banking needs.

Finally, it was clear as we considered the CPP five months ago, and manifestly more so today, that many banks will not survive the financial crisis including some in our geographic footprint. We believed that, as Secretary Paulson suggested, putting additional capital in the hands of the country's best managed banks would be an effective means of avoiding bank failures through the acquisition of the weaker financial institutions by the stronger. **See newspaper story.**

So, that is what it looked like to us a few months ago. While only two months into the CPP program we are looking back on 2008 and a year in which we grew loans by $58 million including both organic and via acquisition. Since January 1, 2009 we have grown our loan portfolio by $84 million including through the acquisition of a troubled community bank in February, 2009. The acquisition used approximately $4 million of the $10.2 million of CPP capital. **See annual report excerpt.**

As we go forward we expect to deploy the balance of the CPP capital during 2009 in at least the following ways:

Bank by phone 800-952-1529
www.midlandstatesbank.com
tel (217) 342-2141 **fax (217) 342-9449**
PO Box 767 Effingham, IL 62401

We have launched an aggressively priced home loan construction offer to help stimulate new home construction which, if successful, will provide a significant boost to the broad base of industries tied to new home building. **See home loan advertisements.**

A second aspect of our efforts to address the problem faced by many home owners is a special $20 million commitment we are making to provide re-financing relief to good credit profile home owners who have found themselves "locked out" of the opportunity to refinance to lower rates solely because of the current depressed home valuations. While we must be careful with any offering which increases the Bank's risk, we believe a calculated exposure to higher loan-to-value borrowers, when all other credit underwriting criteria are met, is a solid bet for homeowners in our communities and for our Bank.

(b) (4)

Finally, an opportunity to deploy the CPP capital which we did not initially envision is surfacing. Banks with diminished capital due to earnings losses are faced with the requirement to improve their capital ratios. As raising bank equity in the market today is exceptionally difficult, they have only the option of forcibly shrinking their balance sheets. What we are seeing as a result of this is an increase in quality borrowers being pushed out of their banks which presents an opportunity to use our CPP capital to support greater loan growth. In addition, other banks with capital ratio and liquidity problems are reaching out to us with requests to purchase participations in quality credits they have in their portfolios. Working within our established policies regarding participations, we believe this will offer us an additional opportunity to deploy CPP capital while providing a "safe landing" for the good borrowers of capital and liquidity challenged banks.

Concluding this portion of our response it seems early on that effectively deploying the Treasury investment in our Company will be possible and will be able to be affected to exactly the purposes identified at the conception of the CPP.

Now to the matter of the requirements regarding executive compensation. Implementing all the requirements in this area will be accomplished over the next two months as follows:

First, for the April 6, 2009 annual shareholder meeting an item identifying a discussion and non-binding vote on executive compensation has been added to the agenda. At the annual Director's meeting of the same date our Executive Committee of the Board of Directors will be designated the Executive and Compensation Committee and will be charged with overseeing our compliance with executive compensation parameters as called for in our agreement with the Treasury. While this work is not yet completed, we expect to have a full review of executive compensation made to the Board's Executive and Compensation Committee in April and to include an opinion by our V.P./Risk Management which speaks to the relationship between executive compensation bonuses and loan risk within the bank. We will be considering bonus "modifiers" that may include deductions for example, for Non-Performing Assets (NPA), over a designated level and/or CAMEL ratings over a designated level as further alternative modifiers. The Executive and Compensation Committee will be further alternative modifiers. The Executive and Compensation Committee will be responsible for a semi-annual review of executive compensation to assure compliance with Department of Treasury guidelines and may engage the assistance of one our outside legal counsel or audit firms to assist in these determinations. Though it may be premature, no executive compensation contractual changes are anticipated at this time as our existing executive employment agreements, bonus plans and long term stock incentive plans seem adequate to meeting compensation and incentive needs of the bank while being flexible enough to comply with Treasury requirements.

Respectfully, we would like to conclude with an observation. Our Board wrestled at length with the implications of having the Government as an equity investor in our company. The intentions of the CPP were/are appropriate and to date we are satisfied to be participating in this endeavor of the Department of Treasury. However, it is also clear that in the urgency to repair the nation's largest and most troubled banks additional caveats, requirements, and restrictions could continue to be layered over the CPP program, with no apparent distinction between the banks which needed to participate and those strong financial institutions who, like our bank, participated because it appeared to be the prudent thing to do with the long term well being of our shareholders, customers, and communities we serve in mind. We urge the Treasury to make every effort to distinguish between these two classes of participants as it considers any new provisions and/or the interpretation of existing provisions of the CPP.

I certify that the statements, representations and supporting information included in this response are accurate and subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001.

Sincerely,

Leon J. Holschbach
President/CEO
Midland States Bancorp

Enclosures

[redacted]

cc: Quarles & Brady LLP
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Effingham, Ill.   Effingham Daily News
1/31/09

Midland States Bancorp, Inc. Selected To Participate In US Treasury's Capital Purchase Program

Midland States Bank

Your business. Your bank. Your security.

Effingham, Illinois (January 31, 2009) – Leon Holschbach, President of Midland States Bank. has announced that Midland States Bancorp, Inc. is proud to have been selected to receive $10.2 million from the US Treasury's Capital Purchase Program (CPP).

"We are pleased to be selected by the United States Treasury to participate in its capital purchase program." States Leon Holschbach, President of Midland States Bank

There are two specific purposes of the CPP: The first is to put additional capital in the hands of the country's strongest banks to ensure that credit continues to be made available to worthy businesses and individuals.

"Though our capital is above the "well capitalized" level and we continue our 128 year history of profitable operations, we believe it is our duty to brace the communities we serve against the negative impacts of the credit crunch affecting the country and indeed the world. Participation in this program guarantees we will have the resources we need.

Our loans continue to grow, increasing by $58 Million from December 2007 to December of 2008. Our lending to homeowners is on track to set an all time record in 2008-2009. We know this is so vital to keep a strong community." Leon Holschbach

The second stated purpose of the Treasury's CPP program is to provide the best managed banks with the resources necessary to acquire weaker financial institutions.

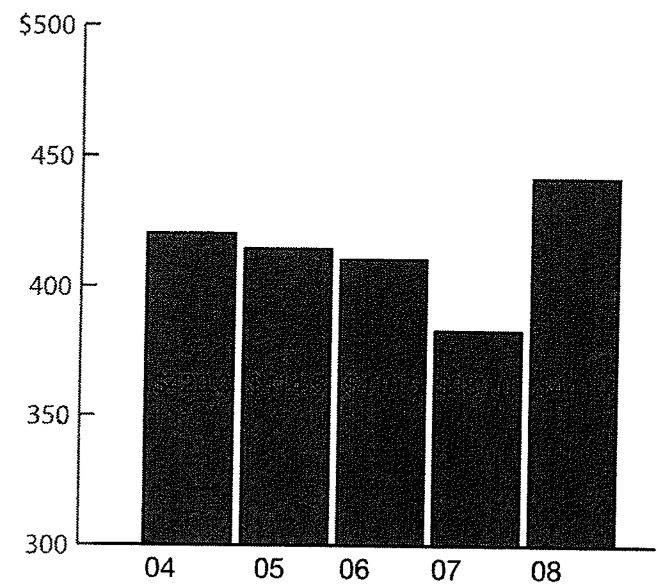
Holschbach went on to explain "Our strategic direction has been to identify acquisition targets to supplement our core growth. The availability of the additional capital will help Midland States Bank realize our opportunities to grow in an accelerated way through acquisitions in the next few years.

Our board of directors and management understand that this will be good for our customers, the communities we serve and our shareholders."

Midland States Bancorp, Inc. is the parent company of Midland States Bank which operates offices in Effingham, Centralia, Farina, Greenville, and Vandalia, Illinois and in Chesterfield, Missouri. Upon regulatory approval, Midland States Bancorp, Inc. will acquire Waterloo Bancshares Inc. (the holding company of Commercial State Bank - CSB) with offices in Columbia, Freeburg, Hecker, Smithton, and Waterloo, Illinois. The closing of this transaction is expected to occur in mid February; increasing the bank's asset size from $440.6 Million as of December 31, 2008 to approximately $550 million.

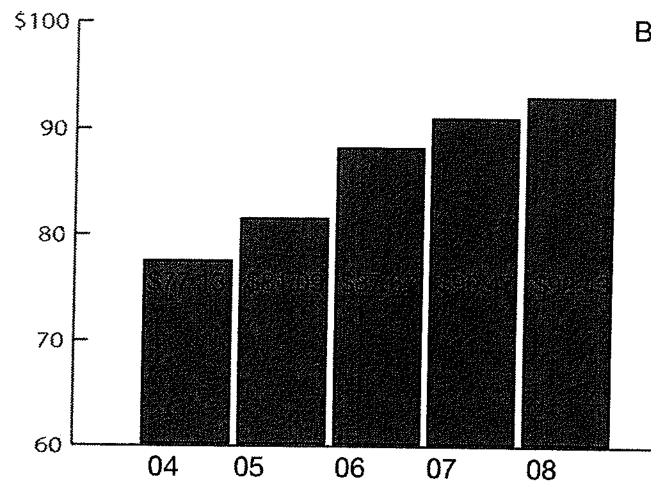
our 2008 balance sheet represents
the largest in our 127 year history

As of December 31, 2008, our balance sheet was $441.7 million, which represents the largest balance sheet in our 127 year history. We grew assets by 15%, with 7% coming from organic growth and 8% through our branch purchase. We expect 2009 to be another strong balance sheet growth year. The Waterloo Bancshares acquisition will increase our assets by approximately $115.0 million in February of 2009.



Our book value per share continues to increase. As of December 31, 2008, our book value per share was $92.43, a 2.1% increase from December 31, 2007.

The Company and its bank continue to be "well capitalized" under applicable regulatory capital adequacy guidelines. Our stockholders' equity continues to grow and is 8.4% of total assets as of December 31, 2008. In January 2009, we sold $10.2 million of preferred stock to the U.S. Treasury under their capital purchase plan. The preferred stock is non-voting and increases our capital levels.



The increase in capital serves two purposes. The first; to grow our Company through the extension of credit to worthy businesses and individuals. We believe it is our duty to brace the communities we serve against the negative impact of the credit crunch affecting our country. Participating in this program guarantees we will have the resources we need to continue funding loans. The second; to provide the best managed banks with the resources to acquire weaker financial institutions. Our board of directors and management understand this will be good for our customers, communities, and shareholders.

Excerpt 2008 Annual report.

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