

April 15, 2003

Supervision and Regulation
Applications Division
Federal Reserve Bank of Chicago
230 S. LaSalle Street
Chicago, IL 60604

To Whom It May Concern:

I am writing from the Woodstock Institute in Chicago to comment on Midwest Bank and Trust's proposed acquisition of CoVest Banc. Woodstock and the Chicago CRA Coalition, which the Institute convenes, have met recently with Midwest Bank to discuss their CRA performance. The Coalition advocates for increased lending, services, and grants and investments related to CRA throughout the region. We were glad that the Bank met with the group and that Midwest has made progress regarding its CRA investments since its CRA exam in 2000, but several serious concerns remain.

The Institute is very troubled by Midwest Bank's skewed CRA assessment area, which includes 688 census tracts in Cook County and 25 in DuPage County. We feel that before this acquisition goes through, the Bank should expand its assessment area. Midwest Bank has enjoyed great success and growth over the last several years and was listed in Crain's Chicago Business as being one of the most profitable banks in Illinois last year. The acquisition of CoVest Banc would mean that Midwest would approach \$3 billion in assets and have 20 branches in the area. This makes the Bank a very sizable institution in a highly competitive market.

In a meeting that the Institute had with the Bank in January, Bank staff stated that they could not realistically enter the lending market in the south side of Chicago. A bank of this size could and should adequately service the entire Chicago area. Midwest Bank has branches in the City of Chicago, including one in the Loop. Other similarly-situated banks include all of Cook County and often the larger Chicago region in their assessment areas. However, currently, Midwest's skewed assessment area excludes all of Chicago south of 35th street as well as the south suburbs. These areas have traditionally been underserved by banks, and Midwest's reluctance to serve these communities will have a negative impact on lower-income and minority residents who already face barriers in accessing the financial

mainstream. Among other criteria, the FFIEC's large bank CRA examination procedures mandate that a bank's assessment area:

- Consist of one or more MSAs or contiguous political subdivisions (i.e., counties, cities or towns);
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- Does not reflect illegal discrimination; and
- Does not arbitrarily exclude low- or moderate-income area(s) taking into account the institution's size and financial condition.

The Institute feels that Midwest Bank and Trust's current assessment area does not fulfill the above criteria. Moreover, CoVest Banc utilizes the entire Chicago MSA (Cook, DuPage, DeKalb, Grundy, Kane, Kendall, Lake, McHenry and Will Counties) in its assessment area. Midwest Bank should continue to utilize the nine-county region as its assessment area in order to realistically reflect the Bank's market and not arbitrarily exclude low-income and minority areas. Merging banks should define their assessment areas according to the larger of the areas, rather than the smaller. A bank should not be allowed to acquire another bank and create an assessment area that is significantly more restrictive than what the other bank is already using for CRA purposes. This violates the intent of expanding service to low-income areas.

Woodstock is concerned about a few other CRA issues as well. For instance, with regard to the investment test, the Institute takes the position that the purchase of mortgage-backed securities (which constitute \$7 million of Midwest's \$10 million in investments over the last CRA examination period) are low-risk, relatively low-impact, non-innovative investments for CRA purposes. Further, Woodstock contends that all investments in mortgage- and asset-backed securities should be reviewed for predatory or illegal lending practices. Midwest Bank and Trust should be encouraged to make more complex and innovative investments.

The Federal Reserve should encourage Midwest to expand its other investments to include more than a few organizations and to begin to offer CRA-related grants. The Institute regularly checks into the CRA performance of local banks, and we have not come across a bank of Midwest's size that does not offer grant support to community development organizations. While admirable, donations such as college scholarships

should not be counted under CRA, as they were in the Bank's last CRA exam.

Thank you for your attention to these important matters.

Sincerely,
Katy Jacob
Research, Communications and Development Associate

cc: Pat Crowley, Midwest Bank and Trust
Douglas Kasl, Federal Reserve Bank of Chicago