Underwriting

Underwriting Procedures ------------------------------------------ 4.2
Underwriting Turn-Around ----------------------------------------- 4.2
Eligible Property Types ----------------------------------------- 4.2
Ineligible Property Types --------------------------------------- 4.2
Eligible Mortgages --------------------------------------------- 4.3
Eligible Borrowers --------------------------------------------- 4.3
Qualifying Ratios --------------------------------------------- 4.3
Documentation Requirements ------------------------------------ 4.3
Income & Employment ------------------------------------------- 4.4
Credit History ----------------------------------------------- 4.4
Assets – Reserves & Funds for Close ----------------------------- 4.5
Interested Party Contributions ------------------------------- 4.5
Collateral ---------------------------------------------------- 4.6
Determination of Loan to Value ------------------------------- 4.6
Appraisal Forms --------------------------------------------- 4.7
Credit Approval Expirations ------------------------------- 4.7
Prior to Closing Conditions ------------------------------- 4.7
FraudGUARD / Quality Review ------------------------------- 4.8
Private Mortgage Insurance ------------------------------------ 4.8
Underwriting Procedures

Fannie Mae underwriting standards and guidelines, in conjunction with South State Bank “Products” guide, will be used for all mortgage loans purchased. The right to establish underwriting policies that are overlays to these guides and/or the Automated Underwriting System (AUS) findings is reserved.

Loans submitted through Desktop Originator/Desktop Underwriter (DO/DU) and Loan Prospector (LP) will be accepted. A complete AUS submission is required. Manually underwritten loans will not be considered. South State Bank reserves the right to request additional information to underwrite a mortgage loan regardless of AUS findings.

Fannie Mae DO

Wholesale and Correspondent customers must have executed a separate agreement with South State Bank and be sponsored to submit loans on our behalf. The assigned underwriter will make necessary changes in DO/DU to match approval for files that have been released.

Freddie Mac LP

LP sponsorship is not offered at this time. Customers will be required to input and correct LP findings as requested by the underwriter. Please reference the individual Products guide for when LP findings are acceptable as well as LP specific overlays.

Ineligible AUS Messaging (Conforming Products)

- Out of Scope / Incomplete
- DU Expanded Approval
- DU Refer/Eligible or Refer/Ineligible
- DU Refer with Caution
- LP A Minus
- LP Caution

Underwriting Turn-Around

Loans will be underwritten on a first come, first serve basis by purpose type (purchase/refinance). “Rush” loans will be accepted on a case by case basis and will be given priority based on closing date.

Eligible Property Types

- Single Family Dwelling – Attached & Detached
- Detached PUD
- Attached PUD, Type E & F
  - Lender Full Review & PUD Questionnaire required
- Established Condominium Projects
  - Must be warrantable to Fannie Mae standards
  - May not be eligible for all products – Reference Products guide for eligibility & review type requirements (Limited / Full)
- 2-4 Unit Properties
  - Primary Only
  - May not be eligible for all products – Reference Products guide for eligibility

Ineligible Property Types

- Manufactured/Mobile Homes
- Timeshares/Condotels/Projects Allowing Fractional Ownership
- Working Farms
- Unique Properties, Log Cabins, Dome Homes, Earth Homes
Eligible Mortgages

Purchase Transactions

Transactions in which the funds are used to finance the purchase of the property or to pay off an existing land contract are treated as a purchase. The payment for a fully completed property in a single disbursement to a builder/contractor for the purchase of such fully completed property where any construction liens were in the name of the builder/contractor will be treated as a purchase.

Refinance Transactions

A Transaction in which the borrower(s) is the current owner of the subject property or meets continuity of obligation requirements is typically treated as a refinance. This may include loans in which the proceeds are used to pay off existing debt secured by the property, whether first mortgage or subordinate liens. Refinance transactions are classified as either “cash out” or “limited cash out”.

The payoff of an interim construction loan in the borrower’s name which is being converted to permanent financing may be treated as either a purchase or a refinance.

Please reference Products guide for detailed information, guidelines, and restrictions in terms of Refinance Transactions.

 Eligible Borrowers

Eligible borrowers are defined as citizens of the United States who have reached the required legal status for which the terms and conditions of the Note and Mortgage can be enforced. Residency status classifications and requirements are listed below.

Permanent Resident

Borrowers holding acceptable evidence of permanent residency (aka Green Card) issued by the U.S. Citizenship and Immigration Services, meeting Fannie Mae guideline requirements. Evidence will be reviewed to determine qualification as a permanent resident.

Non-Permanent Resident

Loans to non-permanent resident aliens will be considered for owner occupied residences. Reference Products guide for program specifics as well as maximum LTV restrictions. Passport and work VISA documenting legal right to temporary residency in the U.S. is required. The most common work visas are E1, E2, H1-B, L, TN, and H. Evidence will be reviewed to determine qualification as a non-permanent resident.

Qualifying Ratios

The maximum allowable total expense ratio (debt-to-income) varies by product. Please reference the Products guide for detailed information. In no instance will a ratio greater than 50% be considered.

NOTE: Transactions requiring mortgage insurance may be subject to reductions in maximum allowed DTI.

Documentation Requirements

Documentation requirements vary by program and are outlined in the Products guide. Please reference the Products section of the manual for these requirements. When utilizing DU/LP, documentation as required by the Automated Underwriting Findings must be obtained in conjunction with the Products guide requirements. Additional documentation may be required to support the underwriting decision.

Tax transcripts provided by the IRS are required to verify income for each borrower. The 4506-T should be executed by the customer prior to file submission for efficient turnaround time.
Income & Employment

A history of receiving stable income from employment as well as other sources, with a reasonable expectation that the income will continue in the foreseeable future is required. The adequacy and continuance of income are as important as the stability of employment. To consider income as qualifying, it must be expected to continue for at least 3 years.

Documentation substantiating income and employment history will be required as noted in the AUS findings and/or the Products guide. **South State Bank reserves the right to request additional documentation to further support the source(s) of income and/or employment used to qualify the borrower(s).**

Documentation may include, but is not limited to the following, where applicable:

- 30 Days’ Paystub(s) – Dated no more than 30 days from the initial loan application, including year-to-date earnings
- 2 Years W-2’s – From all employment over previous 2 year period
- Verification of Employment (VOE) – YTD income required
- 2 Years Personal Federal Tax Returns – Copies of signed & dated returns, including all supporting schedules, which were filed with the IRS for the previous 2 years
- 2 Years Business Federal Tax Returns

Credit History

A borrower’s credit history must demonstrate a past willingness and ability to meet credit obligations. The overall pattern of making payments carries a significant weight. However, derogatory occurrences on a previous or existing mortgage may weigh more heavily.

Use of Credit Score

All loans require a Fannie Mae acceptable, tri-merge credit report with applicable required credit scores for each borrower. Loan applications where the representative score falls below 620 will not be considered. The following guidelines will be used in selecting the representative credit score utilized for underwriting and pricing the individual loan file:

<table>
<thead>
<tr>
<th>IF …</th>
<th>THEN …</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single borrower with only 1 score available</td>
<td>Use that score</td>
</tr>
<tr>
<td>Single borrower with 2 scores available</td>
<td>Use the lowest of both scores</td>
</tr>
<tr>
<td>Single borrower with all 3 scores available</td>
<td>Use the middle score of the 3</td>
</tr>
<tr>
<td>Multiple borrowers</td>
<td>Based on the above guidance, use the lowest qualifying “middle” score</td>
</tr>
<tr>
<td>Multiple scores from one reporting agency</td>
<td>Use the first score reported from that repository</td>
</tr>
</tbody>
</table>

**NOTE:** Please reference individual Product guides to determine requirements for minimum score and number of scores.
Assets – Reserves & Funds for Closing

Liquid assets in the borrower’s name must be available to cover the down payment and any required reserves. Please refer to Product guides as well as AUS findings for asset documentation and specific reserve requirements as they may differ for each program as well as loan parameter.

Acceptable Assets

- Checking, savings, certificate of deposit, money market, or other depository account
- Investments in stocks, bonds, & mutual funds
  - Must be discounted 30% when used for reserves (retirement accounts in the form of stocks, bonds & mutual funds may not be eligible for reserves – reference Product guides)
  - The value of the investment account at the time of sale or liquidation along defined by the amount of actual receipt of funds realized will be used for down payment and/or closing costs
- Trust accounts – borrower must have immediate access to funds
- Vested funds from individual retirement accounts (401K, IRA, SEP, Keogh accounts)
  - For borrowers of retirement age (59 ½), retirement accounts must be discounted 30% when used for reserves
  - For borrower not of retirement age, retirement accounts must be discounted 40% when used for reserves
  - Retirement accounts may not be an eligible source for reserves on all products – reference Product guides for program specific information
  - The amount of actual receipt of funds realized from the liquidation of retirement assets will be used for down payment and/or closing costs
- Cash value of life insurance - Net proceeds from a loan against the cash value or the surrender of policy
  - For a loan against the cash value of policy, if obligations above the surrender of the policy apply, the obligation amount must be factored into the DTI
- Gift funds from an acceptable donor – reference Product guides for individual program requirements and limitations

Unacceptable Assets

- Unsecured borrowed funds
- Cash on hand
- Sweat equity

NOTE: Acceptable and unacceptable assets are not limited to above. Guidance provided for forms of assets most typically seen in loan transactions.

Interested Party Contributions

Contributions paid by the Seller or any other party with an interest in the transaction (builder, developer, real estate agent, etc) are considered Interested Party Contributions (IPC). Such contributions must meet all current Fannie Mae requirements for IPCs, as well as requirements in terms of LTV and occupancy as defined for each product.

<table>
<thead>
<tr>
<th>Occupancy Type</th>
<th>LTV/CLTV Ratio</th>
<th>Maximum IPC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal Residence or Second Home</td>
<td>Greater than 90%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>75.01% – 90%</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>75% or less</td>
<td>9%</td>
</tr>
<tr>
<td>Investment Property</td>
<td>All LTV/CLTV Ratios</td>
<td>2%</td>
</tr>
</tbody>
</table>
Financing Concessions vs Sales Concessions

Financing concessions are typically fees, prepaids items, payments related to acquiring the property, etc which are paid by an interested party. Financing concessions are IPCs subject to the IPC limits.

Sales concessions are IPCs that take the form of non-realty items such as cash, furniture, decorator allowances, moving costs, etc. Sales concessions also include any financing concessions that exceed the IPC limits.

The value of all sales concessions must be deducted from the sales price when calculating LTV/CLTV for underwriting, eligibility and pricing purposes.

All IPCs, sales and financing concessions, must be documented within the file, fully disclosed on the purchase contract or addendum to, clearly stated on the HUD-1, and paid to the appropriate vendor, if applicable, by the closing agent.

Determination of Loan to Value (LTV)

Purchase

LTV is based on the lesser of the appraised value or the purchase price.

Refinance

LTV determination varies by product. Please reference Products guide for program specifics in terms of determining LTV on a refinance transaction.

For conforming transactions, the LTV will be based on the new appraised value.

Collateral

Collateral is defined as property pledged by the borrower(s) to protect the interests of the lender in the event of default on a loan transaction. As a result, in addition to a thorough review of the borrower’s profile, an evaluation of the subject property plays an integral role in the overall risk assessment of the transaction.

The following factors are analyzed when looking at sufficiency of collateral:

- Fair Market Value
  - Buyer and seller are typically motivated
  - Both parties are well informed and acting in what they consider their best interest
  - There is reasonable exposure time in the open market
  - Payment made in terms of cash in U.S. dollars or financial arrangements that are comparable
  - The price represents the normal consideration for the property sold unaffected by financing or sales concessions

- Improvements done to the property

- Actual cost to construct the home new

- Interested party contributions and concessions

- Condition of property
  - If any deferred maintenance does it affect livability

- Property characteristics that could be defined as unique
  - Are characteristics common for the area
  - May affect appeal, marketability, value, etc
**Appraisal Forms**

Appraisals must be completed on the most recent version of appraisal forms available and must include any attachment or addendum that adequately supports the opinion of value. In most instances, a full interior/exterior appraisal is required.

- Conforming fixed rate mortgages submitted through DU should include the appraisal form as designated by the DU Findings
- Loans submitted through LP require a full interior/exterior appraisal
- Property Inspection Waivers (PIW), as determined by DU, are acceptable on conforming fixed rate loan transactions
  - For property type condominium, a PIW is only acceptable on DU RefiPlus transactions
  - The Underwriting Fee must be increased by $75 on initial GFE disclosure in order to execute the PIW

**All appraisals must include lot and block**

- Photographs:
  - Exterior of subject property must include front, rear, and street views
  - Interior of subject property must include kitchen, all baths, main living area, any physical deterioration, and any recent renovations
  - All comparables must have a front view photo
- Fannie Mae Form 1004MC, Market Conditions Addendum, is required on all transactions

**Credit Approval Expirations**

**Borrower Credit Documents**

The age of credit documents must meet the applicable Products guide requirements for the specific loan program at the time of closing. Credit documents include credit reports, employment verifications, income documentation, and asset documentation.

The current maximum allowable age of documentation for conforming transactions is 4 months from the date the Note is signed for both existing properties and new construction.

**Appraisal**

The age of the appraisal must meet the applicable Products guide requirements for the specific loan program at time of closing.

The appraisal must typically be no more than 120 days or 4 months old at the time of closing. Specific loan program guides outline when a recertification of value is acceptable verses when a new appraisal must be ordered. The underwriter also reserves the right to request a new appraisal verses allowing a recertification of value.

**Prior to Closing Conditions**

Prior to closing conditions (PTCs) listed on the Loan Evaluation Report (LER) must be cleared and removed before authorization to schedule a loan closing will be granted.

PTCs, as well as Underwriter to Clear conditions (UTCs), should be submitted in a single, complete submission to minimize underwriting turnaround time and reduce delays resulting from insufficient documentation. Conditions will not be reviewed until the submission is complete, including all items requested.
FraudGUARD / Quality Review

FraudGUARD is a fraud detection, debt monitoring, and underwriting tool utilized on all loan transactions. It is a comprehensive evaluation used to help reduce risk and improve overall loan quality.

Utilizing a combination of numerical scoring and alert management, FraudGUARD evaluates the risk profile for each loan in terms of identity, property valuation, market risk, employment, income, and interested parties. This process assists in identifying misrepresentations at the consumer, application, and property levels.

In addition, Undisclosed Debt Monitoring (UDM) is activated on all transactions. UDM monitors the borrower’s credit and credit inquiries between the time of the original credit report date through to the closing of the loan. Any changes in the borrower’s credit profile could impact the loan approval.

The FraudGUARD report includes, but is not limited to, the following information:

- **Identity**
  - Social Security Number (SSN) usage history, validity of SSN, and SSN fraud alerts

- **Property**
  - Assessment of valuation patterns, property characteristics, market trends, and foreclosure activity
  - Automated Valuation Modeling

- **Application**
  - Validate Social Security issuance directly from the Social Security Office
  - Assessment of income, employment, occupancy, etc

**Private Mortgage Insurance**

In general, all transactions, with the exception of DU RefiPlus, with LTV’s in excess of 80% will require mortgage insurance with coverage acceptable to South State Bank and Fannie Mae. When utilizing AUS findings, please refer to the Loan Evaluation Report (LER) for minimum coverage required as it may differ from the AUS requirement.

**General Coverage Requirements**

<table>
<thead>
<tr>
<th>Fixed 25, 30 Year &amp; All ARMs</th>
<th>Fixed 10, 15, 20 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTV 95.01% to 97%</td>
<td>35%</td>
</tr>
<tr>
<td>LTV 90.01% to 95%</td>
<td>30% LTV &gt; 90%</td>
</tr>
<tr>
<td>LTV 85.01% to 90%</td>
<td>25% LTV 85.01% to 90%</td>
</tr>
<tr>
<td>LTV 80.01% to 85%</td>
<td>12% LTV 80.01% to 85%</td>
</tr>
</tbody>
</table>

**NOTE:** Transactions requiring mortgage insurance are subject to mortgage insurance company guidelines and overlays.