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August 22, 2017

By E-Apps

Mr. Adam Drimer
Assistant Vice President
Federal Reserve Bank of Richmond
701 East Byrd Street
Richmond, VA 23261

Re: Application by South State Corporation to Acquire Park
Sterling Corporation -- Response to Concerns of a Commenter

Dear Mr. Drimer:

This letter responds to statements in an e-mail of August 10, 2017, from the public (the "August 10 E-mail") that the Federal Reserve Bank of Richmond (the "Reserve Bank") forwarded to us concerning the application dated July 28, 2017 (the "FRB Application"), by South State Corporation ("SSC") to the Board of Governors of the Federal Reserve System and the Reserve Bank (collectively, the "Federal Reserve") for prior approval to acquire Park Sterling Corporation ("PSC") and thereby Park Sterling Bank, pursuant to Sections 3(a)(3) and 3(a)(5) of the Bank Holding Company Act (the "Proposed Transaction"). SSC is the parent holding company of South State Bank.

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As discussed in the FRB Application, SSC and PSC have entered into an Agreement and Plan of Merger, dated April 26, 2017, pursuant to which PSC has agreed to merge with SSC, with SSC continuing as the surviving entity in the merger (the “Holdco Merger”). Immediately thereafter, Park Sterling Bank will merge with South State Bank, with South State Bank continuing as the surviving bank (the “Bank Merger” and, together with the Holdco Merger, the “Proposed Transaction”). The Proposed Transaction is expected to close in the fourth quarter of 2017, subject to receipt of regulatory approvals, PSC shareholder approval, SSC shareholder approval and other standard closing conditions.

The August 10 E-mail: (1) criticized South State Bank’s home purchase loan lending record based on data filed in 2015 under the Home Mortgage Disclosure Act (“HMDA”), (2) asserted (incorrectly) that SSC and South State Bank (together, “South State”) had not publicized which branches would be closed in the Proposed Transaction,¹ (3) requested an extension of the public comment period on the FRB Application, and (4) requested a public hearing on the FRB Application. SSC appreciates the opportunity to respond to these matters raised in the August 10 E-mail.

I. South State Bank’s Purchase Mortgage Lending Record

The August 10 E-mail criticizes South State Bank’s purchase mortgage lending record, based on its reported 2015 HMDA data, alleging there were racial disparities in the bank’s purchase mortgage lending activity in the Columbia, South Carolina, Charlotte, North Carolina and Atlanta, Georgia Metropolitan Statistical Areas (“MSAs”). Any implication in the August 10 E-mail that South State Bank has engaged in prohibited discrimination in its home purchase mortgage lending is unfounded.

As a preliminary matter, the Federal Reserve has long recognized that the full scope of information critical to an institution’s credit decisions is not available from HMDA data and, therefore, HMDA data disparities must be evaluated in the context of other information regarding an institution’s lending record.² For example, when conducting fair lending examinations of an institution, examiners review other data relevant to credit decisions, such as credit history, debt-to-income (“DTI”) ratios and loan-to-value (“LTV”) ratios. The Federal Reserve also considers the institution’s fair lending compliance program and record and its risk-management framework.

¹ As discussed in Section II of this letter, South State disclosed the branches of South State Bank or Park Sterling Bank that are planned to be consolidated or closed after consummation of the Proposed Transaction in Exhibit 11 of the FRB Application, as well as in the application that South State Bank and Park Sterling Bank filed with the Federal Deposit Insurance Corporation (the “FDIC”) for prior approval to merge, pursuant to the Bank Merger Act (the “FDIC Application”), and in the published newspaper notice of the FDIC, copies of which have been submitted to the Reserve Bank.

² *E.g.*, *CIT Group, Inc.*, FRB Order No. 2015-20 (July 19, 2015); *First Union Corporation*, 83 Federal Reserve Bulletin 1012 (1997).

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South State is firmly committed to making its credit products and services available to prospective and existing customers on a fair and equitable basis, in strict compliance with both the letter and spirit of the fair lending laws and regulations. A summary of South State's fair lending policy and program (the "Program") is provided below. The Program applies to all business units and operational areas of South State that are responsible for providing banking and credit services to consumers and small businesses.

The Program's components cover: the South State Bank's fair lending risk appetite statement, fair lending roles, responsibilities and expectations, board and management oversight, policies and procedures, risk assessments, self-assessments, internal controls, internal monitoring and testing, independent audit, training, customer complaint response, and reporting. The monitoring, testing and internal controls to help ensure compliance with fair lending laws and regulations include, among others:

- (1) fair lending risk assessments that are conducted annually or more frequently, as needed, which include quantitative and qualitative analyses and an assessment of the quality of the controls and resulting residual risks;
- (2) a second review program for denied consumer loans;
- (3) required review by South State's Fair Lending Officer or Chief Compliance Officer of proposed changes to credit underwriting policies and procedures, credit risk or scoring models or other credit-related models;
- (4) due diligence and oversight of any third-party lending relationships;
- (5) testing and monitoring of HMDA data by the independent, centralized Compliance Risk Management Department to ensure data accuracy, completeness and integrity;
- (6) statistical tests (including regression and redlining analysis) by the Compliance Risk Management Department to detect any meaningful disparities;
- (7) matched-pair analyses, on consumer lending products, including home mortgage loans, pursuant to which applicants from a protected class are compared to similarly situated applicants who are not in a protected classes to detect possible disparate treatment with respect to credit decisions and pricing;
- (8) ongoing monitoring/testing of marketing, compensation, loan and servicing processes;
- (9) ongoing analysis of customer complaints;
- (10) audits of the effectiveness of the Program by Internal Audit and monitoring of any remediation actions; and

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- (11) periodic reporting of fair lending compliance risk assessments, issues and trends to senior management, the Fair Lending Committee, and Management Risk Committee, and also to the Joint Risk Committee of SSC's and South State Bank's boards of directors.

South State also has a robust customer complaint program that includes root cause identification and trend analysis, escalation of any fair lending-based complaints and tracking and monitoring of complaint resolutions. An internal Complaint Committee oversees the effectiveness of the complaint program, and has established key risk metrics as an additional measurement tool for reporting on the effectiveness of the complaint program to the Management Risk Committee and to the Joint Risk Committee of SSC's and South State Bank's boards of directors.

In addition, South State conducts extensive fair lending compliance training for its employees. On an annual basis, all employees are required to complete an online Fair Lending course. Training completion is monitored and tracked and subject to accountability measures. Successful completion of training is reported to the Chief Compliance Officer, and the Management Risk Committee, and to the Joint Risk Committee of SSC's and South State Bank's boards of directors. In addition to the online course, employees responsible for conducting lending related services receive job-specific Fair Lending training. A portion of each employee's performance evaluation is based on successful completion of assigned training. Annual fair lending training is also conducted for SSC's and South State Bank's boards of directors. The boards of directors also receive an annual status update on the Bank's overall fair lending risk.

The August 10 E-mail asserts that the commenter's organization reviewed purchase mortgage loans originated by South State in the Columbia, Charlotte and Atlanta MSAs. In this response, we present similar data for the applicable MSAs. However, please note that South State Bank's Assessment Areas ("AAs") under the Community Reinvestment Act (the "CRA") include only a portion of these MSAs. For example, the Atlanta MSA includes 29 counties, however only two of those counties are included in the Bank's AA. The Charlotte MSA includes seven counties, of which only two are included in the Bank's AA. The Columbia MSA includes six counties, with only two counties included in the Bank's AA.³ The results of our own detailed analysis are presented below. Below we address South State's lending record in the three MSAs criticized by the August 10 E-mail.

It is important to note that isolated differences in lending patterns are not by themselves indicative of fair lending issues. In addition, raw denial rates alone cannot indicate

³ As discussed in the FRB Application, upon the closing of the Proposed Transaction, South State Bank will expand its CRA assessment area so that it will include all of PSB's branches and deposit-taking ATMs. Specifically, as described more fully in the FRB Application, South State Bank's CRA assessment area will be expanded to add: (a) four additional counties in Georgia; (b) three additional counties in North Carolina, including one (Gaston County) in the Charlotte MSA; (c) four additional counties in South Carolina, including two (Saluda and Fairfield Counties) in the Columbia MSA; and (d) three counties and Richmond City in Virginia.

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discrimination in mortgage underwriting as many factors can affect whether an applicant is approved. As we discussed above, HMDA data provide an insufficient basis by themselves on which to conclude whether a banking organization is excluding any racial or ethnic group because the data provide limited information about the covered loans. Further, South State's fair lending program meets regulatory expectations for self-analysis of underwriting decisions, which is the generally accepted method for determining whether discrimination in underwriting has occurred.

The August 10 E-mail focuses on 2015 HMDA data. In 2015, the percentage of (a) originated HMDA-reportable loans made to African American and Hispanic/Latino borrowers to (b) loan applications received from African American and Hispanic/Latino borrowers ("the "Loan Origination Percentage" or "LOP") fell below the corresponding LOP for all HMDA lenders in some geographic areas. South State self-identified the matter and conducted regression analysis and additional monitoring to confirm that discrimination had not occurred. As a result of the 2015 HMDA data, South State increased marketing and outreach efforts targeted in minority-majority census tracts.

The August 10 E-mail focuses on single-family home purchase loans. However, because South State's HMDA mortgage lending program includes, not only single family home purchase loans, but also refinancings and second mortgages, in the analysis below we have included all of South State's HMDA lending to give a more comprehensive picture. This is particularly appropriate in this case because the time period under discussion (*i.e.*, calendar year 2015) was a low rate environment which placed customer emphasis on refinancings.

Columbia MSA. In 2015, in the Columbia MSA, South State Bank's LOP: (a) to African Americans was 52%, compared to 46% for all lenders and (b) to Hispanics/Latinos was 57% compared to 53% for all lenders. South State Bank LOP was 72% in majority-minority census tracts compared to 52% for all lenders. Thus, by this measure, South State exceeded all lenders in lending to African Americans, Hispanics, and in minority tracts.

The August 10 E-mail criticizes South State for making a relatively low number of home purchase loans to African Americans and Hispanics/Latinos in the Atlanta MSA. When considering the levels of the Bank's HMDA lending in this market, it is important to note that although Columbia is the location of the Bank's main office and headquarters, it has a relatively small market share there. As shown in the Public Exhibit 8 of the FRB Application, South State has only a 3.76% deposit market share in the Columbia SC Fed Banking Market.

Charlotte MSA. In 2015, in the Charlotte MSA, South State Bank's LOP: (a) to African Americans was 75%, compared to 51% for all lenders and (b) to Hispanics/Latinos was 81% compared to 58% for all lenders. South State Bank LOP was 87% in majority-minority census tracts compared to 56% for all lenders. Thus, by this measure, South State exceeded all lenders in lending to African Americans, Hispanics, and in minority tracts.

The August 10 E-mail criticizes South State for making a relatively low number of home purchase loans to African Americans and Hispanics/Latinos in the Charlotte MSA. When

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considering the levels of the Bank's HMDA lending in this market, it is important to note that, as shown in the Public Exhibit 8 of the FRB Application, South State has only a 0.28% deposit market share in the Charlotte, NC-SC Fed Banking Market. Moreover, Charlotte has a very large number of competing lenders and is a banking hub for some of the largest banking institutions. For example, in 2015, there were 626 HMDA mortgage originators (banks/mortgage companies) in the Charlotte MSA and 27% of all HMDA-reportable mortgage applications in the area were taken by just four of those mortgage originators.

Atlanta MSA. In 2015, in the Atlanta MSA, South State Bank did not receive any applications for HMDA reportable loans from African American applicants, only eight applications from Hispanic/Latino borrowers, and no applications from majority-minority census tracts. Therefore, LOP calculations are not particularly meaningful for this market.

The August 10 E-mail criticizes South State for making a relatively low number of home purchase loans to African Americans and Hispanics/Latinos in the Atlanta MSA. When considering the levels of the Bank's HMDA lending in this market, it is important to note that South State has a negligible deposit market share in Atlanta. Moreover, the Atlanta MSA is one of the largest in the country with 29 counties. South State has only two branches within the Atlanta MSA, one branch located in the Canton, GA (Cherokee County) area and one in Winder, GA (Barrow County). Both branches were acquired from failed financial institutions in 2011, thus South State has continued to rebuild the reputation of the branches in the area, establish the South State brand, and expand outreach. In addition, the counties in which the branches are located do not contain any majority-minority census tracts. The Atlanta MSA also has a very large number of competing lenders. For example, in 2015, there were 404 HMDA mortgage originators (banks/mortgage companies) in the Atlanta MSA and 26% of all HMDA-reportable mortgage applications in the area were taken by just six of those mortgage originators.

Information on the bases for the denials of home purchase loan applications supports the view that South State Bank does not engage in prohibited discrimination in its mortgage lending. A review of South State Bank's denials of home purchase loan applications from African Americans and Hispanics/Latinos, as reported under HMDA in 2015, in the three MSAs identified in the August 10 Email, illustrates that the denials were based on objective reasons unrelated to the race or ethnicity of the applicant or neighborhood where the subject property was located:

Columbia MSA

- (a) 2015: African American applicants—the Bank denied nine African American applicants; five were denied due to DTI ratios, two for credit history, one for collateral, and one for employment history.
- (b) 2015: Hispanic/Latino applicants—the Bank denied three Hispanic/Latino applicants; all were denied due to DTI ratios.

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Charlotte MSA

- (a) 2015: African American applicants—the Bank denied three African American applicants; one for DTI, one for credit history, and one for an incomplete application.
- (b) 2015: Hispanic/Latino applicants—the Bank denied three Hispanic/Latino applicants; one for employment history, one for credit history, and one for an incomplete application.

Atlanta MSA

- (a) 2015: African American applicants—the Bank did not receive any applications from African American applicants; therefore there were no denials.
- (b) 2015: Hispanic/Latino applicants—the Bank denied only one application from a Hispanic/Latino due to credit history.

Also, South State conducts detailed regression analysis of its loan denials and performs matched-pair analysis on any outliers identified through the regression. In addition, South State has a second review program in place for consumer and residential mortgage loans slated for denial. The program requires an independent review of recommended denials to determine if similarly situated applicants receive similar decisions.

For all these reasons and based on all the facts and circumstances, there is no basis to conclude that South State Bank has engaged in discriminatory home mortgage lending practices. Moreover, the August 10 E-mail ignores South State Bank's wide variety of mortgage loan products and programs, including several affordable mortgage loan programs and community development activities to increase affordable housing opportunities for low and moderate income ("LMI") individuals and communities, which include many minority residents in the bank's assessment areas. As noted in the FRB Application:

- (1) South State currently offers the following real estate mortgage products and services (fixed or adjustable rate) through South State Bank and its banking subsidiaries to its customers: (a) conventional mortgages, (b) Fair Housing Act/Veterans Administration loans, (c) construction/permanent loans, (d) jumbo mortgages, (e) lot loans, and (f) U.S. Department of Agriculture Loans and refinancing products.
- (2) South State recognizes the vital importance of customizing products and services to particular banking needs and effective community reinvestment programs and has a satisfactory record of meeting the needs of the communities it serves, including LMI geographies and individuals. South State Bank received a CRA performance rating of "Satisfactory" at its most recent evaluation by the FDIC, as of October 31, 2016 (the "2016 South State Bank Evaluation"). South State

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Bank's performance was evaluated using the Federal Financial Institutions Examination Council's Large Institution CRA Examination Procedures which involve applying a lending test, an investment test and a service test. South State Bank received a rating of "High Satisfactory" under each of these three tests.⁴

- (3) The FDIC's examiners also evaluated South State Bank's compliance with antidiscrimination laws, including the Fair Housing Act⁵ and the Equal Credit Opportunity Act.⁶ No evidence of discriminatory or other illegal credit practices were identified during the evaluation.
- (4) Since the 2016 South State Bank Evaluation, South State Bank has furthered its commitment to community reinvestment and to serving the needs of LMI geographies and individuals in all of its communities.

South State Bank has propriety loan programs for underserved markets and actively participates in a variety of national, state and locally based mortgage lending programs designed to assist LMI individuals and LMI or minority communities, including programs of the Veterans Administration, the Federal Housing Administration, the U.S. Department of Agriculture and Fannie Mae. These programs include the following:

A. South State Bank Proprietary Programs

1. Community Solutions. South State offers a proprietary affordable home mortgage loan product, the Community Solutions product, designed to meet the needs of (1) borrowers purchasing a primary residence in a high minority census tract (>50%) that is within South State Bank's assessment area, *or* (2) borrowers purchasing a primary residence with total projected income received by borrower that is less than 80% of the median income limit as set by the United States Department of Housing and Urban Development ("HUD") within South State Bank's assessment area. The program allows an LTV of up to 100%. This program is open to eligible borrowers in all markets within the South State's AAs and is originated by South State Bank Community Lending Loan Officers. Homeownership education is required.

2. Community Lending Coupons. Moreover, to increase lending and promote homeownership in LMI communities, mortgage coupons are distributed by the South State Community Mortgage Loan Originators in conjunction with faith-based institutions and other

⁴ Regarding the Lending Test, the 2016 South State Bank Evaluation states:

The bank's lending levels reflect good responsiveness to the assessment areas' credit needs, and a substantial majority of loans are extended in the institution's assessment areas. The geographic distribution of loans reflects good penetration throughout the assessment areas, and the distribution of borrowers reflects adequate penetration throughout the assessment areas. The institution uses flexible lending practices in order to serve the assessment areas' credit needs and originates a relatively high level of community development loans.

⁵ 42 U.S.C. § 3601 *et seq.*

⁶ 15 U.S.C. § 1691 *et seq.*

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minority service organizations. The coupon is for a \$350 reduction in the commitment fee and it is eligible on any South State mortgage program.

3. South State Bank Program with Community Second Down Payment Assistance. The City of Columbia provides purchase assistance to residents who qualify under the City's program parameters. South State Bank's product is a portfolio, fixed rate first mortgage, used in conjunction with the City of Columbia's Community Second. Homeownership education is required. The City of Columbia provides a total of 20% assistance, which assistance is split between: (a) a second mortgage, amortized over 30 years with an interest rate 1% below the first mortgage rate, and (b) a \$5,000 third mortgage with a 0% rate repayable on the 361st month, or qualifying event.

B. Secondary Investor Programs Supported by South State Bank

1. HomeReady. HomeReady, which was created by Fannie Mae and designed for creditworthy LMI borrowers, offers expanded eligibility for financing homes in low-income communities. There are two ways that borrowers are eligible for the HomeReady Program: (1) if the property is located in a low income census tract, then there is no income limit *or* (2) for all other properties borrowers qualifying income is capped at 100% of the Area Median Income ("AMI"). The program is not limited to first time homebuyers and it is available on purchase and limited cash out refinances. Loan level pricing adjustment caps are present to help with pricing adjustments, and mortgage insurance coverage for 90-97% LTV is lower. Gifts, grants, community seconds and cash-on-hand are permitted as a source of funds for down payment and closing costs. Homeownership education is required.

2. South Carolina State Housing -- SC Housing Homebuyer Program. The SC Housing Homebuyer program can be used in conjunction with the FHA 30-Year Fixed program for purchase of primary residences in South Carolina. In congruence with a borrower's first mortgage, the program offers down payment assistance programs. Homebuyers must be either purchasing a home in a targeted county (as dictated by SC Housing), a first-time homebuyer, veteran, a single parent, or an individual or family with disability. Second mortgage down payment assistance programs have a 10-year term loan that is used in conjunction with the SC Housing first mortgage program that may be used for down payment, closing costs and/or prepaid items.

3. South Carolina State Housing -- SC Housing Mortgage Tax Credit Program. The Mortgage Tax Credit Program ("MCC") can be used in conjunction with a conventional 30-year fixed program for purchase of primary residences in South Carolina. It provides a federal income tax credit to qualified homebuyers of up to \$2,000 per calendar year for every year they occupy the home as their primary residence. The homebuyer remains eligible to receive the tax credit for as long as he or she retains ownership, lives in the home, pays interest on the mortgage and has an actual tax liability. The mortgage interest remaining after the tax credit may still be claimed as a mortgage interest deduction on the homebuyer's federal income tax return. Homebuyers must be: a first-time homebuyer, purchasing in a targeted county, or a veteran.

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4. Georgia Dream. The Georgia Department of Community Affairs Office of Housing Finance offers the GA Dream Homeownership Program, which can be used in conjunction with the FHA 30 Year Fixed program for purchase of primary residences in Georgia. Homebuyers must be either a first-time homebuyer, purchasing in targeted area, or a veteran. Second mortgage is available with a deferred, no interest 0% loan that may be used for down payment, closing costs and/or prepaid items. South State is a new participant in this program.

In addition, South State Bank has taken actions to increase the number of home mortgage applications from, and loans to, LMI, African American and Hispanic/Latino borrowers. For example:

- (1) In the Columbia and Charlotte MSAs, South State has partnered with the local Housing Authorities, organizations that work to improve communities by providing quality and affordable housing, comprehensive homeownership services and economic development opportunities. In Columbia, South State has partnered with the Columbia Housing Development Corporation, dedicated to creating new housing and preserving existing housing in city neighborhoods, particularly those with little to no new development in many years. In Charlotte, South State has partnered with the Renaissance West Community Initiative, a non-profit organization leading the revitalization of a former public housing site into a vibrant village called The Renaissance. The initiative uses a holistic community redevelopment approach, focusing on multiple critical factors, including mixed-income housing, educational opportunities, youth and adult development programs, health and wellness services and commercial investment.
- (2) In Georgia, South State is an active member and participant in the Georgia Advancing Communities Together, Inc. organization. The organization's mission is to build and support a statewide network of organizations and professionals engaged in housing and community development, with a purpose of serving families with limited housing choices.
- (3) Over the past two years, South State has hired four Community Mortgage Loan Originators in various markets, including Columbia. The Community Mortgage Loan Originators have a specific focus on community outreach and mortgage originations in markets where South State's minority application intake rate falls below certain benchmarks.
- (4) South State is a new participant in the Georgia Dream Homeownership Program, through which, as discussed above, home purchasers may obtain a second mortgage with a deferred, no interest loan, to use for down payment, closing costs and/or prepaid items.
- (5) South State's direct-mail marketing campaigns are primarily focused on the Bank's existing customer base. However, the majority of the Bank's

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advertisements are made through social media, local newspapers/publications, radio stations, and billboards within the AA. In addition to the Bank's general marketing strategy, the Bank also has a designated Fair Lending marketing budget. These funds are used to enhance marketing efforts targeted in high-minority census tracts where the Bank's application rate may be lower than the established benchmark. The funds are used to market the Bank's lending products through additional billboards in high-minority census tracts and through other local minority media sources.

As noted previously, South State has been increasing its outreach so that borrowers can take advantage of its mortgage products and services, including those products and services discussed above. In addition, South State recently announced a \$100 million mortgage lending initiative to assist LMI and minority communities. Upon the completion of the merger of South State and Park Sterling, the \$100 million commitment will be allocated over five years in various markets across the combined South State and Park Sterling footprint. The new lending commitment will allow South State to offer our existing services and deepen relationships with customers and communities throughout the newly combined footprint. An outreach effort will begin later this year to reach eligible borrowers under this specific initiative.

South State Bank has also supported affordable housing development through its community development lending, investment and service activities. In the 2016 South State Bank Evaluation, the FDIC reported that the bank overall made a relatively high level of community development loans. The FDIC also commended South State Bank on making a significant level of qualified community development investments and grants and on demonstrating good responsiveness to credit and community development needs. The FRB Application identifies a number of examples of South State Bank's community development loans and qualified investments during and since the evaluation period of the 2016 South State Bank Evaluation.

Since the 2016 South State Bank Evaluation, South State has made: (a) in the Columbia MSA, community development loans totaling \$3,872,369 and qualified investments totaling \$231,606; (b) in the Charlotte MSA, community development loans totaling \$29,486,430 and qualified investments totaling \$3,000,000, and (c) in the Atlanta MSA, \$9,500 in qualified investments. Examples of such loans and investments in the Columbia, Charlotte and Atlanta MSAs since the 2016 South State Bank Evaluation include:

- Five Community Solutions Product loans totaling \$615,000 in the Columbia MSA, four Community Solutions Product loans, totaling \$594,000 in the Charlotte MSA, and one South Carolina State Housing Product loans, totaling approximately \$8,000 in the Columbia MSA. The Community Solutions Product and the South Carolina State Housing Product are residential mortgage products designed to meet the needs of borrowers purchasing a primary residence in an LMI census tract or who have income less than 80% of the HUD median income limit. The product features down payment assistance and/or pricing that is better than or equal to standard loan pricing.

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- Two Serviced Mortgage Loan Modification Program loans totaling \$172,384. This program supports mortgage loan modifications in LMI census tracts to help those having problems making payments by reducing interest rates, monthly payments or principal balances.
- Two Federal Emergency Management Agency (“FEMA”) Flood Disaster Program and Hurricane Matthew Disaster Program loans totaling approximately \$100,000 in Columbia. The FEMA flood disaster program helps individuals affected by a flood and includes a mortgage disaster renovation program. The Hurricane Matthew Disaster Program includes a disaster relief consumer loan, a catastrophe savings account,⁷ mortgage insurance and a manufactured housing rate discount.
- Two State Small Business Credit Initiative loans totaling \$835,243 in the Columbia MSA, three State Small Business Credit Initiative loans totaling \$1,034,611 in the Charlotte MSA and two State Small Business Credit Initiative loans totaling \$562,258 in the Atlanta MSA. Plus, one South Carolina Capital Access Lending Program Loan, totaling \$75,000 in the Columbia MSA, and one South Carolina Capital Access Lending Program Loan, totaling \$50,000 in the Charlotte MSA. These programs are for small business loans in LMI census tracts and feature terms and/or pricing that is better than or equal to standard.

During the Post-Evaluation Period, South State Bank made 12 community development loans totaling \$29.4 million in the Charlotte MSA and three community development loans totaling \$3.8 million in the Columbia MSA. Examples of such community development loans and investments include:

- A \$6.5 million loan to a nonprofit health care center whose mission is to provide affordable medical care to the uninsured, underinsured and low-income residents of York County (Charlotte MSA).
- A \$4 million loan to a nonprofit whose mission is to revitalize a former public housing project in Charlotte. The project includes a child development center, quality housing, schools, jobs, recreation and community services. Their partners include HUD, Charlotte Housing Authority, Charlotte Mecklenburg Schools and the YMCA of Charlotte. The project will include New Market Tax Credits as part of its funding source.
- A \$3.3 million loan to restore a historic building which will help to revitalize a low income area thru planned redevelopment by the City of Columbia.

⁷ Catastrophe savings accounts allow owners of single family homes to prepare for the financial impact of a catastrophic storm and save on state income taxes. Similar to health savings accounts, the money can be set aside free from state income tax, and used in the future to pay for qualified catastrophic expenses that result from certain hurricane, flood or windstorm events.

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- A \$3 million CRA qualified investment for affordable housing in Charlotte.
- A \$100,000 thousand loan to provide financing for a 56-unit multifamily affordable housing development in Columbia.

South State Bank also is in the process of originating two CRA-qualified investments in North Georgia, Columbia, and Charlotte, North Carolina, totaling approximately \$6 million.

As recognized in the 2016 South State Bank Evaluation and discussed in the FRB Application, South State Bank also has engaged in a high level of community development services throughout its assessment areas. South State's management and employees have volunteered their financial, business and technical expertise by serving on the boards of directors and committees and volunteering their time to various non-profit community organizations, including those that focus on providing affordable housing and other services. Since the 2016 South State Bank Evaluation, South State's employees have volunteered/performed 177 community development services, totaling 1,385 hours throughout its footprint, including 24 services in Charlotte, or 322 hours, 15 services in Columbia, totaling 11 hours, and 10 services in Atlanta, totaling five hours.

II. Branch Consolidations and Closings

Because there is some overlap in the legacy branch networks of South State Bank and Park Sterling Bank, and in order to reduce redundancy and to make the delivery of customer services more efficient, South State Bank expects to consolidate or close certain branch locations, either South State Bank or Park Sterling Bank branches, in connection with the Proposed Transaction. Specifically, South State Bank expects to: (a) consolidate two legacy South State Bank branches into nearby legacy Park Sterling Bank branches; (b) consolidate five legacy Park Sterling Bank branches into nearby legacy South State Bank branches; (c) close one legacy South State Bank branch; and (d) close seven legacy Park Sterling Bank branches. All of the branch actions are contingent on the consummation of the Proposed Transaction and each is expected to be completed by the end of the second quarter of 2018.

- A. South State has been very transparent in publicly disclosing its branch consolidation/closure plans.

The August 10 E-mail asserted (incorrectly) that South State had not publicized which branches would be closed in the Proposed Transaction. In fact, South State Bank has been *very* transparent with both its regulators and the public in disclosing its branch consolidation/closure plans. South State publicly disclosed in the published newspaper notice of the FDIC Application, copies of which have been submitted to the Federal Reserve, the addresses of the 15 South State Bank or Park Sterling Bank branches that it plans to consolidate or close after consummation of the Proposed Transaction. Additionally, public Exhibits 11 of the FRB Application, as well as an identical public exhibit in the FDIC Application, contain detailed information about each consolidation/closure, including: (a) the addresses (including the county) of the consolidating/closing branch, (b) the address (including the county) of the branch that will

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receive the deposits of the consolidating/closing branch, (c) the distance between the branches, and (d) a detailed explanation of why the branch is being consolidated/closed. Each of the explanations reference one or more attached maps that further illustrate the relationship between the consolidating/closing branch and the receiving branch.

B. Notices to affected customers and South State Bank's careful considerations in compliance with its branch closing/consolidation/relocation policy.

As discussed in FRB Application:

- (1) The factors that were used in identifying branches for closure included proximity to the nearest branch, respective conditions and available services at the closing and recipient branch, customer and community impact, financial performance and future prospects of the branch.
- (2) In general, the customer accounts of branches to be closed will be transferred to the next nearest branch, either a legacy Park Sterling Bank branch or an existing South State Bank branch. Accounts of customers of a branch to be consolidated will be transferred to the branch designated as the receiving branch of the two consolidating branches.
- (3) South State Bank or Park Sterling Bank, as appropriate, will provide prior notices of any branch closures to the applicable regulators and the customers in accordance with the applicable law, regulations and regulatory guidance.
- (4) Customers of branches to be consolidated also will receive prior notices of the planned consolidation into other branches.
- (5) South State Bank adheres to a comprehensive internal branch closing, relocation and consolidation policy to ensure compliance with applicable laws and to regulatory guidance.

C. Public benefits far outweigh the costs.

Any limited inconvenience caused by the consolidations and closings in connection with the Proposed Transaction should be weighed against the fact that South State Bank and Park Sterling Bank customers will gain access to the resultant organization's larger branch and ATM network.

III. Comment Period Extension Request

The August 10 E-mail requested an extension of the comment period. On July 13, 2017, SSC published notices of the FRB Application in (a) *The State*, a newspaper of general circulation in Columbia, South Carolina, the city in which SSC's headquarters and South State

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Bank's main office are located, and (b) *The Charlotte Observer*, a newspaper of general circulation in Charlotte, North Carolina, the city in which PSC's headquarters and Park Sterling Bank's main office are located. SSC published such notices in accordance with the requirements of the Federal Reserve's regulations.⁸ Those notices invited comments on the FRB Application, which was submitted to the Board on the same day, and noted that the due date for such comments was August 12, 2017. In addition, the Federal Reserve published notice of the FRB Application in the *Federal Register* on July 18, 2017, inviting the public to comment on the FRB Application through April 10, 2017. Therefore, the comment period ran for 30 days, providing interested members of the public an ample amount of time to comment on the FRB Application.

The Federal Reserve's rules contemplate that the public comment period will not be extended absent a clear demonstration of hardship or other meritorious reasons for seeking additional time.⁹ The August 10 E-mail, however, does not identify any facts or circumstances that would warrant an extension of the public comment period for the FRB Application.¹⁰

Accordingly, the Federal Reserve should deny the request to extend the public comment period on the FRB Application.

Public Hearing Request

The August 10 E-mail also asserted that the Federal Reserve should hold public hearings on the FRB Application. Section 3(b) of the Bank Holding Company Act does not require that the Federal Reserve hold a public hearing on any application unless the appropriate supervisory authority of the bank to be acquired makes a timely written recommendation of denial of the application.¹¹ To South State's knowledge, the Federal Reserve has not received any such recommendation from the FDIC.

Under its rules, the Federal Reserve may, in its discretion, hold a public hearing or meeting if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately represent their views.¹² However, the August 10 E-mail does not identify disputed issues of fact material to the Federal Reserve's decision on the FRB Application or that would be clarified by a public hearing or meeting. The August 10 E-mail also does not demonstrate why written comments cannot adequately present the commenter's views, or those of other interested members of the public, or why a hearing or meeting otherwise would be necessary or appropriate.

⁸ 12 CFR 225.16(b).

⁹ 12 CFR 262.25(b)(2).

¹⁰ The August 10 E-mail espouses that a reason that the public comment period should be extended to allow entry of information on South State's proposed branch closings. However, as discussed above in Section II, South State already identified the addresses of the branches to be closed and has provided a detailed explanation for each branch closing in the FRB Application itself.

¹¹ 12 U.S.C. § 1842(b); 12 CFR 225.16(e).

¹² 12 CFR 225.16(e); 12 CFR 262.3(i)(2); *see, e.g., CIT Group, Inc.*, FRB Order No. 2015-20 (July 19, 2015).

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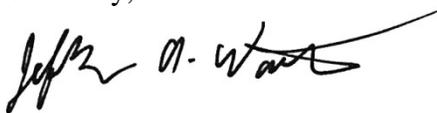
Accordingly, the Board should deny any such request for a public hearing on the FRB Application.

* * *

As discussed in the FRB Application, South State Bank offers first-rate customer service and a full range of products and services, including those designed for small business and LMI individuals and communities, is actively engaged in community development lending and investment activities, and provides extensive community development services. The respective communities served by South State and PSC/Park Sterling Bank are well served by these organizations and, after the Proposed Transaction, these communities will continue to be well served by the combined organization. Customers of both Park Sterling Bank and South State Bank also will benefit from the combined bank's larger branch and ATM networks. The combination of the SSC and PSC organizations will create a premier franchise in the Carolinas, Georgia and Virginia.

Once again, we appreciate this opportunity to respond. If you have any questions about this submission or need additional information, please do not hesitate to contact me (212/403-1330) or my colleague, Richard K. Kim (212/403-1354).

Sincerely,



Jeffrey A. Watiker

JAW:mlg

cc: U.S. Department of Justice, Antitrust Division, Litigation II Section
Michael J. Dean, Federal Deposit Insurance Corporation
Laura J. Bearden, Federal Deposit Insurance Corporation
Patrick D. Brennan, North Carolina Office of the Commissioner of Banks
Renee E. Dzek, Office of the Commissioner of Banking, South Carolina
Matthew R. Lee, Inner City Press/Pair Finance Watch
Richard K. Kim, Wachtell, Lipton, Rosen & Katz