FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns Expected Ratings to Angel Oak Mortgage Trust 2021-4

Wed 11 Aug, 2021 - 3:35 PM ET

Related Fitch Ratings Content:
Angel Oak Mortgage Trust 2021-4 (US RMBS)
Angel Oak Mortgage Trust 2021-4 --Appendix

Fitch Ratings - New York - 11 Aug 2021: Fitch Ratings has assigned expected ratings to Angel Oak Mortgage Trust 2021-4 (AOMT 2021-4).

RATING ACTIONS

ENTITY/DEBT	RATING		
AOMT 2021-4			
• A-1	LT	AAA(EXP)sf Rating Outlook Stable	Expected Rating
• A-2	LT	AA(EXP)sf Rating Outlook Stable	Expected Rating
• A-3	LT	A(EXP)sf Rating Outlook Stable	Expected Rating

ENTITY/DEBT	RATING		
• M-1	LT	BBB-(EXP)sf Rating Outlook Stable	Expected Rating
• B-1	LT	BB(EXP)sf Rating Outlook Stable	Expected Rating

VIEW ADDITIONAL RATING DETAILS

TRANSACTION SUMMARY

Fitch Ratings expects to rate the residential mortgage-backed certificates to be issued by Angel Oak Mortgage Trust 2021-4, Mortgage-Backed Certificates, Series 2021-4 (AOMT 2021-4) as indicated above. The certificates are supported by 632 loans with a balance of $316.65 million as of the cutoff date. This will be the 16th Fitch-rated AOMT transaction.

The certificates are secure by mortgage loans that were originated by Angel Oak Home Loans LLC and Angel Oak Mortgage Solutions LLC (referred to as Angel Oak originators) and two other originators that originated less than 10% of the loans. Of the loans in the pool, 79.9% are designated as nonqualified mortgage (Non-QM), and 20.1% are investment properties not subject to Ability to Repay (ATR) Rule. No loans are designated as QM in the pool.

There is LIBOR exposure in this transaction. 0.20% of the pool comprises adjustable-rate mortgage (ARMs) loans that reference 1-year Libor. The offered certificates are fixed rate and capped at the net weighted average coupon (WAC).

KEY RATING DRIVERS

Non-QM Credit Quality (Mixed): The collateral consists of 632 loans, totaling $317 million and seasoned approximately six months in aggregate (eight months based on Fitch's analysis). The borrowers have a strong credit profile (739 FICO and 37% DTI as determined by Fitch) and relatively high leverage with an original CLTV of 74% that translates to a Fitch calculated sLTV of 81.6%. Of the pool, 75.5% consists of loans where the borrower maintains a primary residence, while 24.6% comprises an investor property or second home based on Fitch's analysis; 18.8% of the loans were originated through a retail channel. Additionally, 79.9% are designated as Non-QM, while the remaining 20.1% are exempt from QM since they are investor loans.

The pool contains 55 loans over $1 million, with the largest $2.9 million.

20.1% comprises loans on investor properties (10.2% underwritten to the borrowers' credit profile and 9.9% comprising investor cash flow loans). Of the borrowers, 0.3% have subordinate financing; there is one second lien loan, and Fitch views 4.1% of borrowers as having a prior credit event in the past seven years.

None of the loans in the pool had a deferred balance.

There are two foreign nationals in the pool. Fitch treated these borrowers as investor occupied, coded as ASF1 (no documentation) for employment and income documentation, and removed the liquid reserves.

The largest concentration of loans is in California (33.3%), followed by Florida and Georgia. The largest MSA is Los Angeles MSA (15.1%) followed by Miami MSA (12%) and Atlanta MSA (6.4%). The top three MSAs account for 33.5% of the pool. As a result, there was no adjustment for geographic concentration.

Although the credit quality of the borrowers is higher than prior AOMT transactions, the pool characteristics resemble non-prime collateral, and therefore, the pool was analyzed using Fitch's non-prime model.

Loan Documentation (Negative): Approximately 80.4% of the pool was underwritten to borrowers with less than full documentation. Of this amount, 67.1% was underwritten to a 12-month or 24-month bank statement program for verifying income, which is not consistent with Appendix Q standards and Fitch's view of a full documentation program. To reflect the additional risk, Fitch increases the PD by 1.5x on the bank statement loans. Besides loans underwritten to a bank statement program, 2.7% is an asset depletion product, and 9.9% is a DSCR product. The pool does not have any loans underwritten to a CPA or PnL product, which Fitch viewed as a positive.

Limited Advancing (Mixed): The deal is structured to six months of servicer advances for delinquent principal and interest. The limited advancing reduces loss severities as there is a lower amount repaid to the servicer when a loan liquidates and liquidation proceeds are prioritized to cover principal repayment over accrued but unpaid interest. The downside to this is the additional stress on the structure side as there is limited liquidity in the event of large and extended delinquencies

Modified Sequential Payment Structure (Neutral): The structure distributes collected principal pro rata among the class A notes while excluding the subordinate bonds from principal until all three classes are reduced to zero. To the extent that either a cumulative loss trigger event or delinquency trigger event occurs in a given period, principal will be distributed sequentially to the class A-1, A-2 and A-3 bonds until they are reduced to zero.

Macro or Sector Risks (Positive): Consistent with the Additional Scenario Analysis section of Fitch's "U.S. RMBS Coronavirus-Related Analytical Assumptions" criteria, Fitch will consider applying additional scenario analysis based on stressed assumptions as described in the section to remain consistent with significant revisions to Fitch's macroeconomic baseline scenario or if actual performance data indicate the current assumptions require reconsideration.

In response to revisions made to Fitch's macroeconomic baseline scenario, observed actual performance data, and the unexpected development in the health crisis arising from the advancement and availability of coronavirus vaccines, Fitch reconsidered the application of the coronavirus-related ERF floors of 2.0 and used ERF floors of 1.5 and 1.0 for the 'BBsf' and 'Bsf' rating stresses, respectively. Fitch's "Global Economic Outlook - June 2021" and related base-line economic scenario forecasts have been revised to 6.8% U.S. GDP growth for 2021 and 3.9% for 2022 following a 3.5% GDP decline in 2020. Additionally, Fitch's U.S. unemployment forecasts for 2021 and 2022 are 5.6% and 4.5%, respectively, which is down from 8.1% in 2020. These revised forecasts support Fitch reverting to the 1.5 and 1.0 ERF floors described in Fitch's "U.S. RMBS Loan Loss Model Criteria."

RATING SENSITIVITIES

Fitch incorporates a sensitivity analysis to demonstrate how the ratings would react to steeper market value declines (MVDs) than assumed at the MSA level. Sensitivity analyses was conducted at the state and national levels to assess the effect of higher MVDs for the subject pool as well as lower MVDs, illustrated by a gain in home prices.

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

--This defined positive rating sensitivity analysis demonstrates how the ratings would react to positive home price growth of 10% with no assumed overvaluation. Excluding the senior class, which is already rated 'AAAsf', the analysis indicates there is potential positive rating migration for all of the rated classes. Specifically, a 10% gain in home prices would result in a full category upgrade for the rated class excluding those being assigned ratings of 'AAAsf'.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

--This defined negative rating sensitivity analysis demonstrates how the ratings would react to steeper MVDs at the national level. The analysis assumes MVDs of 10.0%, 20.0%

and 30.0% in addition to the model-projected 42.8% at 'AAA'. The analysis indicates that there is some potential rating migration with higher MVDs for all rated classes compared with the model projection. Specifically, a 10% additional decline in home prices would lower all rated classes by one full category.

This section provides insight into the model-implied sensitivities the transaction faces when one assumption is modified, while holding others equal. The modeling process uses the modification of these variables to reflect asset performance in up- and down environments. The results should only be considered as one potential outcome, as the transaction is exposed to multiple dynamic risk factors. It should not be used as an indicator of possible future performance.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Structured Finance transactions have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of seven notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of seven notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAAsf' to 'Dsf'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

USE OF THIRD PARTY DUE DILIGENCE PURSUANT TO SEC RULE 17G -10

Fitch was provided with Form ABS Due Diligence-15E ("Form 15E") as prepared by AMC, Clayton, Infinity and Consolidated Analytics. The third-party due diligence described in Form 15E focused on three areas: compliance review, credit review, and valuation review. Fitch considered this information in its analysis and, as a result, Fitch did not make any adjustment(s) to its analysis due to the due diligence findings. Based on the results of the 100% due diligence performed on the pool, the overall expected loss was reduced by 0.48%.

DATA ADEQUACY

Fitch relied on an independent third-party due diligence review performed on 100% of the loans. The third-party due diligence was consistent with Fitch's "U.S. RMBS Rating Criteria." The sponsor, Angel Oak Mortgage Operating Partnership, LP engaged American Mortgage Consultants, Inc., Clayton Services, Consolidated Analytics, Inc. and Infinity IPS to perform the review. Loans reviewed under these engagements were given compliance, credit and valuation grades and assigned initial grades for each subcategory.

An exception and waiver report was provided to Fitch, indicating the pool of reviewed loans has a number of exceptions and waivers. Fitch determined that the exceptions and waivers do not materially affect the overall credit risk of the loans due to the presence of compensating factors such as having liquid reserves or FICO above guideline requirements or LTV or DTI lower than guideline requirement. Therefore, no adjustments were needed to compensate for these occurrences.

Fitch also utilized data files that were made available by the issuer on its SEC Rule 17g-5 designated website. The loan-level information Fitch received was provided in the American Securitization Forum's (ASF) data layout format. The ASF data tape layout was established with input from various industry participants, including rating agencies, issuers, originators, investors and others, to produce an industry standard for the pool-level data in support of the U.S. RMBS securitization market. The data contained in the data tape layout were populated by the due diligence company and no material discrepancies were noted.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

REPRESENTATIONS, WARRANTIES AND ENFORCEMENT MECHANISMS

A description of the transaction's representations, warranties and enforcement mechanisms (RW&Es) that are disclosed in the offering document and which relate to the underlying asset pool is available by clicking the link to the Appendix. The appendix also contains a comparison of these RW&Es to those Fitch considers typical for the asset class as detailed in the Special Report titled 'Representations, Warranties and Enforcement Mechanisms in Global Structured Finance Transactions'.

ESG CONSIDERATIONS

AOMT 2021-4 has an ESG Relevance Score of '4+' for Transaction Parties & Operational Risk due to strong transaction due diligence and a 'RPS1-' Fitch-rated servicer, which resulted in a reduction in expected losses, and is relevant to the rating in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 29 Jan 2020)

Criteria for Rating U.S. and Canadian Residential and Small Balance Commercial Mortgage Servicers (pub. 07 Feb 2020)

U.S. RMBS Coronavirus-Related Analytical Assumptions —Effective July 10, 2020—Oct. 1, 2021 (pub. 10 Jul 2020) (including rating assumption sensitivity)

U.S. RMBS Loan Loss Model Criteria (pub. 27 Oct 2020) (including rating assumption sensitivity)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria - Effective from 13 November 2020 to 20 September 2021 (pub. 13 Nov 2020)

U.S. RMBS Cash Flow Analysis Criteria (pub. 26 Feb 2021) (including rating assumption sensitivity)

U.S. RMBS Surveillance and Re-REMIC Rating Criteria (pub. 05 Mar 2021) (including rating

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Third-party Model (1)

U.S. RMBS Cash Flow Assumptions Model, v2.10.4 (1)

US RMBS Loan Loss Model (Excel platform), v5.9.6 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

ABS Due Diligence Form 15E 1

ABS Due Diligence Form 15E 2

ABS Due Diligence Form 15E 3

ABS Due Diligence Form 15E 4

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Angel Oak Mortgage Trust 2021-4	EU,UK Endorsed

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Structured Finance   Structured Finance: RMBS   North America   United States

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