FitchRatings

RATING ACTION COMMENTARY

Fitch Assigns Final Ratings to Angel Oak Mortgage Trust 2021-5

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Fitch Ratings - New York - 10 Sep 2021: Fitch Ratings has assigned final ratings to Angel Oak Mortgage Trust 2021-5.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
AOMT 2021-5				
• A-1	LT	AAAsf Rating Outlook Stable	New Rating	AAA(EXP)sf Rating Outlook Stable
• A-2	LT	AAsf Rating Outlook Stable	New Rating	AA(EXP)sf Rating Outlook Stable
• A-3	LT	Asf Rating Outlook Stable	New Rating	A(EXP)sf Rating Outlook Stable
• M-1	LT	BBB-sf Rating Outlook Stable	New Rating	BBB-(EXP)sf Rating Outlook Stable

ENTITY/DEBT	RATING	PRIOR

VIEW ADDITIONAL RATING DETAILS

TRANSACTION SUMMARY

Fitch rates the residential mortgage-backed certificates issued by Angel Oak Mortgage Trust 2021-5, Mortgage-Backed Certificates, Series 2021-5 (AOMT 2021-5) as indicated above. The certificates are supported by 982 loans with a balance of $389.62 million as of the cutoff date. This will be the 17th Fitch-rated AOMT transaction.

The certificates are secured by mortgage loans that were originated by Angel Oak Home Loans LLC, Angel Oak Mortgage Solutions LLC, Angel Oak Prime Bridge LLC (referred to as Angel Oak originators), 78.9% are designated as nonqualified mortgage (Non-QM), and 21.1% are investment properties not subject to the Ability to Repay Rule. No loans are designated as QM in the pool.

There is LIBOR exposure in this transaction. Of the pool, 274 loans (27.9% by loan count) comprises adjustable-rate mortgage loans that reference one-year LIBOR. The offered certificates are fixed rate and capped at the net weighted average coupon.

There are 15 loans in the pool, that Fitch identified as being located in Hurricane Ida FEMA designated individual assistance areas. The servicer has confirmed that they have not received any reports of damage from borrowers located in the impacted areas. As a result, there was no impact to the transaction.

KEY RATING DRIVERS

Non-QM Credit Quality (Mixed): The collateral consists of 982 loans, totaling $390 million, and seasoned approximately 13 months in aggregate. The borrowers have a strong credit profile (729 FICO and 36% DTI as determined by Fitch) and relatively high leverage with an original CLTV of 73.5% that translates to a Fitch calculated sLTV of 89.5%. Of the pool, 72.5% consists of loans where the borrower maintains a primary residence, while 27.5% comprises an investor property or second home based on Fitch's analysis; 11.7% of the loans were originated through a retail channel. Additionally, 78.9% are designated as Non-QM, while the remaining 21.1% are exempt from QM since they are investor loans.

The pool contains 70 loans over $1 million, with the largest $3.1 million.

21.1% comprises loans on investor properties (7.2% underwritten to the borrowers' credit profile and 13.9% comprising investor cash flow loans). Of the borrowers, 0.1% have subordinate financing in Fitch's analysis since Fitch included the deferred amounts as a junior lien amount; there are three second lien loans, and Fitch views 3.6% of borrowers as having a prior credit event in the past seven years.

Two of the loans in the pool had a deferred balance that totaled $13,259. These deferred balances were treated as a junior lien amount in Fitch's analysis which resulted in an increased CLTV.

There are 14 foreign nationals/non-permanent residents 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 Florida (31.4%), followed by California and Georgia. The largest MSA is Miami MSA (14.6%) followed by Los Angeles MSA (10%) and Atlanta MSA (7.6%). The top three MSAs account for 32.2% 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): Fitch determined that 79.4% of the pool was underwritten to borrowers with less than full documentation. Of this amount, 64.1% was underwritten to a 12- 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 probability of default by 1.5x on the bank statement loans. Besides loans underwritten to a bank statement program, 0.8% is an asset depletion product, and 13.9% is a debt service coverage ratio product. The pool does not have any loans underwritten to a CPA or PnL product, which Fitch viewed as a positive.

Two loans to foreign nationals/non-permanent residents were underwritten to a bank statement program and twelve loans to foreign nationals/non-permanent residents were underwritten to full documentation, however in Fitch's analysis these loans were treated as no documentation loans.

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 a lower amount is repaid to the servicer when a loan liquidates and liquidation proceeds are prioritized to cover principal repayment over accrued but unpaid interest. The downside is the additional stress on the structure 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 Economic Risk Factor (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

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

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.

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 43.4% 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.

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

Fitch incorporates a sensitivity analysis to demonstrate how the ratings would react to steeper 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.

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'.

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 Fund EU, LLC, 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 2021-5 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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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)

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 assumption sensitivity)

Global Structured Finance Rating Criteria (pub. 24 Mar 2021) (including rating assumption

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, v2.10.5-TempOnlyNewDeal (1)

US RMBS Loan Loss Model (Excel platform), v5.9.7 (1)

READ MORE ON THIS TOPIC

Angel Oak Mortgage Trust 2021-5 (US RMBS)
Angel Oak Mortgage Trust 2021-5 -- Appendix

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

AOMT 2021-5	EU Endorsed, UK Endorsed

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