FitchRatings

RATING ACTION COMMENTARY

Fitch Expects to Rate RATE Mortgage Trust 2021-J2

Mon 09 Aug, 2021 - 3:03 PM ET

Related Fitch Ratings Content:
RATE Mortgage Trust 2021-J2 - Appendix
RATE Mortgage Trust 2021-J2 (US RMBS)

Fitch Ratings - New York - 09 Aug 2021: Fitch Ratings expects to rate the residential mortgage-backed certificates issued by RATE Mortgage Trust 2021-J2 (RATE 2021-J2). The pool is backed by prime collateral and the transaction is scheduled to close on Aug. 18, 2021.

RATING ACTIONS

ENTITY/DEBT	RATING		
RATE 2021-J2			
• A-1	LT	AAA(EXP)sf Rating Outlook Stable	Expected Rating
• A-10	LT	AAA(EXP)sf Rating Outlook Stable	Expected Rating
• A-11	LT	AAA(EXP)sf Rating Outlook Stable	Expected Rating
• A-12	LT	AAA(EXP)sf Rating Outlook Stable	Expected Rating

ENTITY/DEBT	RATING		
• A-13	LT	AAA(EXP)sf Rating Outlook Stable	Expected Rating
• A-14	LT	AAA(EXP)sf Rating Outlook Stable	Expected Rating

VIEW ADDITIONAL RATING DETAILS

TRANSACTION SUMMARY

The certificates are supported by 431 loans with a total balance of approximately $401.07 million as of the cutoff date. The pool consists of prime fixed-rate mortgages originated by Guaranteed Rate, Inc. Distributions of principal and interest and loss allocations are based on a senior-subordinate, shifting-interest structure.

KEY RATING DRIVERS

High-Quality Mortgage Pool (Positive): The collateral consists of 431 loans, totaling $401.07 million, and seasoned approximately three months in the aggregate (calculated as the difference between origination date and first pay date). The borrowers have a strong credit profile (783 FICO and 32% DTI) and moderate leverage (78% sLTV). The pool consists of 93.1% of loans where the borrower maintains a primary residence, while 6.9% comprise a second home, or loans made to non-permanent resident aliens treated as investment properties. Additionally, 100% of the loans were originated through a retail channel and 100% are designated as Safe Harbor qualified mortgage (QM).

Interest Reduction Risk (Negative): The transaction incorporates a structural feature for loans more than 120 days delinquent (a stop-advance loan). Unpaid interest on stop-advance loans reduces the amount of interest that is contractually due to bondholders in reverse-sequential order. While this feature helps limit cash flow leakage to subordinate bonds, it can result in interest reductions to rated bonds in high-stress scenarios. A key difference with this transaction, compared to other programs that treat stop-advance loans similarly, is that liquidation proceeds are allocated to interest before principal. As a result, Fitch included the full interest carry in its loss projections and views the risk of permanent interest reductions as lower than other programs with a similar feature.

Low Operational Risk (Positive): Operational risk is well controlled for in this transaction. Guaranteed Rate is assessed as an 'Average' originator and is contributing all of the loans to the pool. The originator has a robust origination strategy and maintains experienced senior management and staff, strong risk management and corporate governance controls and a robust due diligence process. Primary servicing functions will be performed by Service Mac.

Fitch conducted an abbreviated review and determined the servicer meets the industry standards necessary to effectively subservice mortgage loans.

Credit Enhancement (CE) Floor (Positive): To mitigate tail risk, which arises as the pool seasons and fewer loans are outstanding, a subordination floor of 1.15% of the original balance will be maintained for the subordinate classes. The floor is sufficient to protect against the five largest loans defaulting at Fitch's 'AAAsf' average loss severity of 46%.

Updated Economic Risk Factor (Positive): Consistent with the Additional Scenario Analysis section of Fitch's "U.S. RMBS Coronavirus-Related Analytical Assumptions" criteria, Fitch will consider applying an additional scenario analysis based on stressed assumptions as described in the section to remain consistent with significant revisions to its macroeconomic baseline scenario or if actual performance data indicate the current assumptions require reconsideration. In response to revisions 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 baseline economic scenario forecasts have been revised to 6.8% U.S. GDP growth for 2021 and 3.9% for 2022 following the negative 3.5% GDP rate in 2020. Additionally, Fitch's U.S. unemployment forecasts for 2021 and 2022 are 5.6% and 4.5%, respectively, down from 8.1% in 2020. These revised forecasts support Fitch reverting to the 1.5 and 1.0 ERF floors described in its "U.S. RMBS Loan Loss Model Criteria."

RATING SENSITIVITIES

Fitch's analysis incorporates a sensitivity analysis to demonstrate how the ratings would react to steeper market value declines (MVDs) than assumed at the MSA level. The implied rating sensitivities are only an indication of some of the potential outcomes and do not consider other risk factors that the transaction may become exposed to or may be considered in the surveillance of the transaction. Three sets of sensitivity analyses were conducted at the state and national levels to assess the effect of higher MVDs for the subject pool.

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 39.3% 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 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'.

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 Consolidated Analytics. The third-party due diligence described in Form 15E focused on a credit, compliance and property valuation review. Fitch considered this information in its analysis and, as a result, Fitch made the following adjustment(s) to its analysis: a 5% default reduction at the loan level. This adjustment resulted in a 20bps reduction to the 'AAAsf' expected loss.

DATA ADEQUACY

Fitch relied in its analysis on an independent third-party due diligence review performed on 100% of the pool. The third-party due diligence was consistent with Fitch's "U.S. RMBS Rating Criteria." Consolidated Analytics was engaged to perform the review. Loans reviewed under this engagement were given compliance, credit and valuation grades and assigned initial grades for each subcategory. Minimal exceptions and waivers were noted in the due diligence reports. Refer to the Third-Party Due Diligence section of this report for further details.

Fitch also utilized data files that were made available by the issuer on its SEC Rule 17g-5-designated website. Fitch received loan-level information based on the American Securitization Forum's (ASF) data layout format, and the data are considered comprehensive. 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 ASF layout data tape were reviewed by the due diligence companies, 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

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)

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, v2.10.4 (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

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

RATE Mortgage Trust 2021-J2	EU,UK Endorsed

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Structured Finance Structured Finance: RMBS North America United States

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