Presale:

Angel Oak Mortgage Trust 2019-3

May 30, 2019

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Preliminary Ratings

Class	Preliminary rating (i)	Class type	Initial interest rate (%)(ii)	Preliminary amount ($)	Credit enhancement (%)(iii)
A-1	AAA (sf)	Senior	Fixed	227,037,000	40.45
A-2	AA (sf)	Senior	Fixed	26,687,000	33.45
A-3	A (sf)	Senior	Fixed	53,185,000	19.50
M-1	BBB- (sf)	Mezzanine	Fixed	31,263,000	11.30
B-1	BB (sf)	Subordinate	Fixed	16,203,000	7.05
B-2	B (sf)	Subordinate	Fixed	16,585,000	2.70
B-3	NR	Subordinate	Net WAC	10,293,566	0.00
A-IO-S	NR	Excess servicing	(iv)	Notional(v)	N/A
XS	NR	Subordinate/Monthly excess cash flow	(vi)	Notional(v)	N/A
R	NR	Residual	N/A	N/A	N/A

Note: This presale report is based on information received as of May 28, 2019. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. (i)The collateral and structural information in this report reflects the term sheet dated May 28, 2019. The preliminary ratings address the ultimate payment of interest and principal. (ii)Interest can be deferred on the classes. Fixed coupons are subject to the pool's net WAC. Class B-3's initial interest rate equals net WAC. (iii)This credit enhancement is solely from subordination. Excess spread also provides credit enhancement. (iv) Excess servicing strip plus net prepayment interest excess minus compensating interest. (v)The notional amount equals the loans' stated principal balance. (vi) Excess interest strip of net WAC less coupons of the A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates plus prepayment premiums. WAC--Weighted average coupon. N/A--Not applicable. NR--Not rated.

Profile

Expected closing date	June 7, 2019
Cut-off date	May 1, 2019
Distribution date	The 25th of each month, or the next business day, beginning June 25, 2019.
Stated maturity date	May 25, 2059
Certificate balance, including unrated classes	$381.3 million in aggregate

Profile (cont.)

Collateral types	First-lien, second-lien, fixed- and adjustable-rate, fully amortizing, and interest-only residential mortgage loans secured by single-family residential properties, townhouses, planned-unit developments, condominiums, and two- to four-family residential properties to both prime and nonprime borrowers. The pool has 1,169 loans, which are primarily nonqualified mortgage loans.
Collateral	U.S. residential mortgage loans
Credit enhancement	For each class of preliminary rated certificates, subordination in the form of certificates that are lower in payment priority as well as excess spread that preserves subordination.

Participants

Issuer	Angel Oak Mortgage Trust 2019-3
Sponsor	Angel Oak Mortgage Fund EU LLC
Seller	Angel Oak Mortgage Fund EU Trust
Depositor	Angel Oak Mortgage Trust I LLC
Master servicer, securities administrator, and certificate registrar	Wells Fargo Bank N.A.
Servicer	Select Portfolio Servicing Inc.
Servicing administrator and representation provider	Angel Oak Mortgage Solutions LLC
Representation and warranty reviewer	Covius Real Estate Services LLC
Trustee, paying agent, and custodian	U.S. Bank N.A.
Originators	Angel Oak Mortgage Solutions LLC, contributing 93.01% of the pool by balance; Angel Oak Home Loans LLC, contributing 6.60%; and Angel Oak Prime Bridge LLC, contributing 0.39%.

P&I--Principal and interest.

Primary Originators/Loan Sellers Making Up More Than 10% Of The Collateral

Entity	By balance (%)	Due diligence (%)	Originator ranking
Angel Oak Mortgage Solutions LLC	93.01	100	Average
Angel Oak Home Loans LLC	6.60	100	Average
Angel Oak Prime Bridge LLC	0.39	100	N/A(i)

(i)For this specific transaction, we are applying the same loss coverage adjustment factor of 0.95x to the 0.39% of the loans originated by Angel Oak Prime Bridge LLC because of the type of loans (DSCR loans) and because the qualitative review process for these loans is in line with that of loans originated by Angel Oak Mortgage Solutions LLC and Angel Oak Home Loans LLC. N/A--Not applicable. DSCR--Debt service coverage ratio.

Servicers

Entity	By balance (%)	S&P Global Ratings' select servicer	Operation
Select Portfolio Servicing Inc.	100	Yes	Primary servicer
Wells Fargo Bank N.A.	100	Yes	Master Servicer

Rationale

The preliminary ratings assigned to Angel Oak Mortgage Trust 2019-3's (AOMT 2019-3's) mortgage pass-through certificates reflect our view of:

- The pool's collateral composition (see the Collateral Summary section below);
- The credit enhancement provided for this transaction;
- The transaction's associated structural mechanics;
- The transaction's representation and warranty (R&W) framework; and
- The mortgage originator.

Collateral Summary

AOMT 2019-3's assets consist primarily of fixed- and adjustable-rate and interest-only nonqualified mortgage (non-QM) loans secured by mostly first liens (99.84% of the pool). The mortgage pool consists of 1,169 mortgage loans with a principal balance of approximately $381.3 million as of the cut-off date.

The collateral pool, from a credit perspective, is weaker than the S&P Global Ratings' archetypal prime pool, but it is generally in line with our expectations of a nonprime mortgage residential mortgage pool (see table 1). The pool's 'AAA' loss coverage requirement was determined to be 35.55%. In our analysis, we considered the following mortgage loan characteristics to be weaker:

- Truth in Lending (TILA) designation (non-QM);
- FICO and loan-to-value (LTV);
- Alternative income documentation on loans;
- Loan purpose (cash-out refinances);
- Loan type (adjustable-rate mortgage loans and interest-only term features); and
- Prior credit events (PCEs).

The mortgage loans consist of adjustable-rate fully amortizing mortgage loans (63.2% by balance), fixed-rate (34.1% by balance), adjustable interest-only (2.1% by balance), and fixed-rate interest-only (0.5% by balance). The weighted average seasoning for the pool is approximately two months.

The mortgage pool has a weighted average current combined loan-to-value (CLTV) of 76.05%. The weighted average updated FICO score for the collateral pool is 701, which includes certain S&P Global Ratings assumptions (see table 2 for a breakdown of the pool by the borrowers' FICO score). In the pool, there are 20 loans to foreign borrowers (1.31% by balance), of which 15 are to borrowers without a FICO score. We assessed these loans in our credit analysis using a FICO score of 633, which is approximately the mortgage pool's average original FICO score minus one standard deviation. For all 20 loans to foreign borrowers, we applied a 1.5x multiple to the foreclosure frequencies.

Mortgage loans backed by properties that are primary residences make up approximately 81.4% of the pool by balance. The mortgage loans are secured by first and second liens on single-family residences (53.6% by balance), planned-unit developments (PUDs; 35.6%), condominiums (8.0%), and two- to four-family homes (2.9%) (see table 1).

Table 1

Collateral Characteristics

	AOMT 2019-3	SHMLT 2019-SH1	VERUS 2019-2	DRMT 2019-2	HOF Trust I 2019-1	Archetypal pool(i)
Closing pool balance (mil. $)	381.3	281.6	609.2	369.7	535.4	N/A
Closing loan count (no.)	1,169	977	1,204	883	1,045	N/A
Avg. loan balance ($)	326,137	288,246	505,992	418,719	512,333	N/A
WA original CLTV (%)	76.2	73.1	70.1	73.2	72.1	75.0
WA current CLTV (%)	76.1	72.6	69.9	73.0	71.7	75.0
WA FICO(ii)	701	663	701	693	721	725
WA current rate (%)	7.2	7.5	6.7	7.2	6.5	N/A
WA original term (mos.)	360	360	372	366	364	360
WA seasoning (mos.)	2	6	3	4	5	0-6
WA debt-to-income (%)	33.8	37.4	36.1	36.2	33.3	36.0
WA DSCR (non-zero)	1.17	1.22	N/A	1.15	1.26	N/A
Owner occupied (%)	81.4	89.9	77.0	73.4	71.5	100.0
Single-family (including unattached and attached PUD) (%)	89.1	92.1	85.7	87.1	81.4	100.0
Adjustable-rate loans (%)	65.4	58.2	63.6	66.9	77.9	0.0
Loans with IO payments (%)	2.7	0.0	18.2	15.8	24.7	0.0
Purchase (%)	62.5	38.3	46.7	52.4	55.2	100.0
Cash-out refinancing (%)	33.3	57.6	40.0	36.7	37.4	0.0
Full documentation (%)	30.7	56.1	39.4	34.5	22.3	100.0
Alternative/bank statement documentation (%)	61.4	40.7	58.9	47.3	54.9	0.0
Other/asset depletion/DSCR documentation (%)	7.6	3.2	1.7	18.2	22.9	0.0
Self-employed borrowers (%)	70.3	49.0	72.8	59.6	67.5	0.0
Loans with co-borrowers (%)	37.6	39.0	34.4	36.8	28.0	0.0
Loans to borrowers with multiple mortgages (%)(iii)	2.8	3.1	3.5	3.9	5.0	N/A
Loans to foreign borrowers (%)(foreign national and non-permanent resident aliens)	1.3	0.2	7.9	3.1	2.6	0.0
Modified loans (%)(iv)	0.0	0.0	0.0	0.0	0.0	0.0
PCEs (%)(iv)	7.0	3.0	1.7	5.0	0.4	0.0
Current (%)	100.0	100.0	100.0	100.0	100.0	100.0
30+ day delinquent (%)	0.0	0.0	0.0	0.0	0.0	0.0
Length of P&I advancing (mos.)(v)	6	6	6	6	6	Full
Pool-level adjustments (multiplicative factors)						
Geographic concentration	1.00	1.00	1.06	1.01	1.05	1.00

Table 1

Collateral Characteristics (cont.)

	AOMT 2019-3	SHMLT 2019-SH1	VERUS 2019-2	DRMT 2019-2	HOF Trust I 2019-1	Archetypal pool(i)
Mortgage operational assessment	0.95	1.00	1.00	1.00	1.00	1.00
Representations and warranties	1.10	1.10	1.10	1.10	1.10	1.00
Other (i.e. loan modification/PCE/due diligence)	1.10	1.05	1.03	1.07	1.01	1.00
Combined pool-level adjustments(vi)	1.15	1.16	1.20	1.19	1.17	1.00
Loss estimation						
'AAA' loss coverage (%)	35.55	33.10	27.30	35.15	30.60	7.50
'AAA' foreclosure frequency (%)	57.19	56.19	51.01	63.01	56.35	15.00
'AAA' loss severity (%)	62.16	58.91	53.52	55.78	54.30	50.00
'BBB' loss coverage (%)	12.60	11.15	8.75	11.90	10.20	1.50
'BBB' foreclosure frequency (%)	30.07	29.34	26.35	33.40	29.66	5.00
'BBB' loss severity (%)	41.90	38.00	33.21	35.63	34.39	30.00

(i)As defined in our Feb. 22, 2018, criteria article. (ii)FICO reflects the most recent scores obtained with certain analytical assumptions. (iii)Limited to borrowers who have multiple mortgage loans or properties included in the securitized pool. (iv)Limited to modified and PCE loans considered in our analysis. (v)Months of P&I advancing on a delinquent mortgage loan to the extent such advances are deemed recoverable. (vi)Combined pool-level adjustments are the product of each pool-level adjustment listed above. AOMT--Angel Oak Mortgage Trust. SHMLT--Spruce Hill Mortgage Loan Trust. DRMT--Deephaven Residential Mortgage Trust. HOF--Homeward Opportunities Fund. WA--Weighted average. CLTV--Combined loan-to-value ratio. DSCR--debt service coverage ratio. PUD--planned-unit development. IO--Interest-only. PCE--Prior credit event. P&I--Principal and interest. N/A--Not applicable.

Table 2

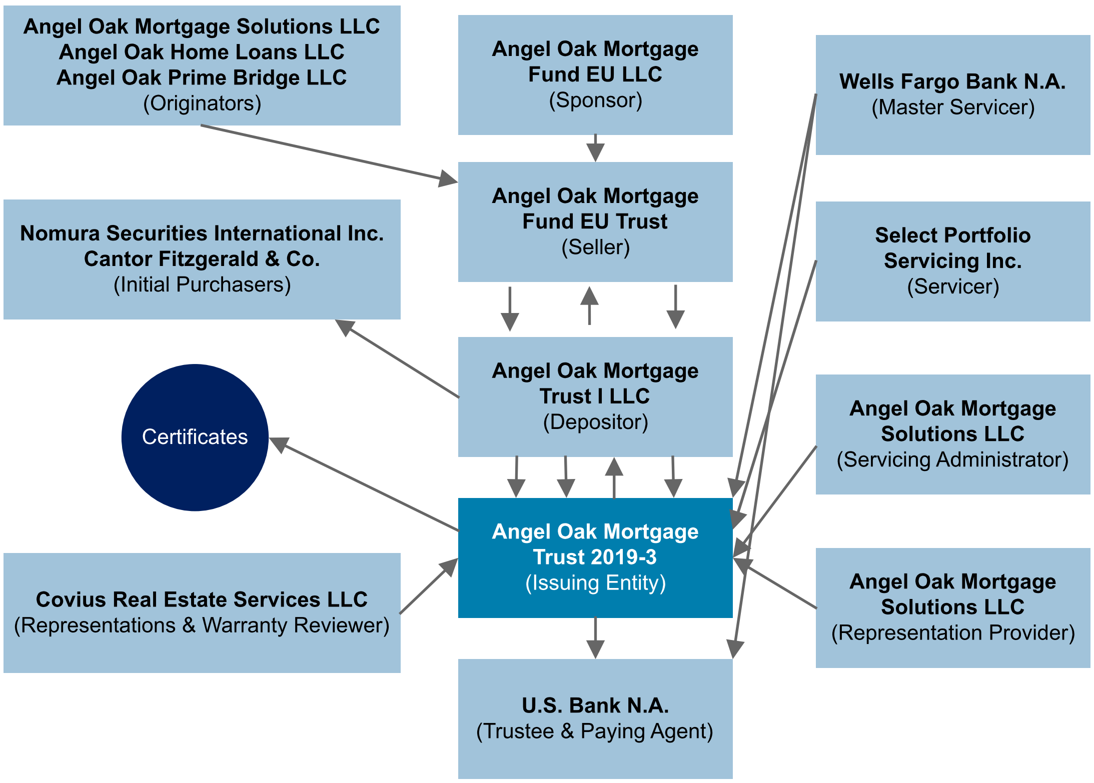
Updated Credit Score Statistics

FICO score	Current balance (%)	No. of loans	Average current balance ($)
>800	1.34	21	243,050
775-800	7.35	69	406,298
750-774	10.69	123	331,309
725-749	17.80	177	383,471
700-724	17.30	200	329,829
675-699	16.97	192	336,972
650-674	10.36	138	286,114
625-649	8.95	113	301,949
600-624	4.01	57	268,315
575-599	2.81	37	289,908
550-574	1.36	22	235,000
525-549	0.72	11	248,753
500-524	0.31	8	149,148
475-499	0.03	1	101,199
Total	100.0	1,169	326,136

Transaction Structure

The chart below shows an overview of the transaction's structure.

Transaction Structure



In connection with this transaction, the mortgage loans are transferred three times: first from the originators to the seller, second from the seller to the depositor, and lastly as a true sale from the depositor to the issuer. The issuer transfers the newly issued certificates to the depositor, the depositor sells them to the initial purchasers, and the initial purchasers sell them to third-party investors. The depositor also sells the non-offered certificates, as well as those required to be held to satisfy the risk-retention rules, to the sponsor.

In rating this transaction, S&P Global Ratings will review the legal matters it believes are relevant to its analysis, as outlined in its criteria.

Strengths And Weaknesses

We believe the following characteristics strengthen the AOMT 2019-3 transaction:

- The third-party due diligence providers--AMC Diligence LLC (AMC) and Clayton Services LLC, both of which are on our list of reviewed providers--performed due diligence on 100% of the pool's loans. Their reviews encompassed credit (underwriting) compliance, property valuations, regulatory compliance, and data quality.

- The class A-1, A-2, and A-3 certificates (the senior classes; together the class A certificates) benefit from a credit support floor wherein no principal is paid to the mezzanine and subordinate classes until the class A certificates are retired. Additionally, principal is paid sequentially among the senior classes in periods when either the cumulative loss or the delinquency trigger has failed, further protecting the more senior classes.
- Excess monthly cash flows are available to cover the current period's realized losses and to reimburse any previously applied realized loss amounts.

We believe the following factors weaken the AOMT 2019-3 transaction:

- Income on certain mortgage loans (61.4% by balance) was verified using bank statements. We view income verification using such alternative documentation to be a weaker standard than "full" documentation of income and, consequently, we increased our loss coverages for these loans by applying an adjustment to the foreclosure frequencies. We applied an adjustment factor of 2.00x to the foreclosure frequencies for loans using 12-23 months of bank statements, and 1.75x for loans using at least 24 months of bank statements.
- The mortgage pool contains property-focused investor loans that were underwritten to an investment property business purpose program (7.3% by balance), using debt service coverage ratios (DSCRs) ranging from 0.79 to 2.55. Depending on the DSCR, we applied an adjustment factor ranging from 3.15x to 5.06x to the foreclosure frequencies for these loans.
- Non-QM loans, which have an increased risk of ability-to-repay (ATR) challenges and associated loan losses, make up 85.4% of the pool. We applied an adjustment to loss severities to account for this risk, which increased our loss coverage estimates at each rating category.
- We applied a pool-level loss coverage adjustment because 107 loans (7.0% by balance) had a bankruptcy discharged or dismissed in the past two years or had a housing-related PCE (foreclosure, short-sale, or deed-in-lieu) in the past three years from the May 1, 2019, cut-off date to account for this risk.
- A portion of the mortgage loans (44.6% of the pool by balance) were made to borrowers with current FICO scores below 700. The mortgage pool's loss estimate has been increased to account for the increased default risk of these loans.
- In this transaction, the representation provider (Angel Oak Mortgage Solutions LLC) makes the representations. The representation provider is an unrated entity that may be financially unable to repurchase loans if the need arises. The representation and warranty framework is weak, as the testing of some breaches are not always automatic; greater than 25% of the certificateholders by certificate balance are required to engage the representation and warranty reviewer (Covius Real Estate Services LLC) to commence a review of the related mortgage loan. One hundred percent due diligence performed by third parties on the loans with an Angel Oak entity holding the first-loss piece and retaining risk via owning not less than 5% horizontal residual interest of the capital structure mitigates the risks and concerns with the framework only to an extent. Consequently, we applied an R&W factor of 1.10x, which increased our loss expectations at all rating categories by 10%.

Credit Analysis And Assumptions

Our analysis of the AOMT 2019-3 collateral pool considered a number of factors, including certain loan-level characteristics detailed below.

Documentation type

The originator guidelines allow income verification using paystubs, W-2s/W-2 equivalents, tax returns, and bank statements. The originators also consider asset depletion as borrower income and to qualify for monthly payments. For business purpose investment property loans, the sponsor considers the properties' DSCR (see table 3).

Table 3

Documentation Type (Income Verification Length)

	Loan count (no.)	Current balance (%)	Foreclosure frequency adjustment factors (x)
Appendix Q/qualified mortgage	3	0.27	1.00
Full (24+ months)	403	28.80	1.00
Full (12-23 months)	14	1.89	1.25
Full (1-11 months)	0	0.00	1.50
Alternative/limited (24+ months)	69	7.14	1.75
Alternative/limited (12-23 months)	515	54.29	2.00
Alternative/limited (1-11 months)	0	0.00	2.25
Other (business purpose investment with DSCR)	162	7.30	3.15-5.06
Other (asset depletion)	3	0.31	3.00

DSCR--Debt service coverage ratio.

For 417 loans (approximately 30.7% of the pool balance), traditional (full) documentation was used to fully verify and calculate the borrower(s)' qualifying income (e.g., written verification of employment, pay stubs, W2s, personal tax returns). We applied a documentation type adjustment factor ranging from 1.00x to 1.25x, depending on the length of the income verification, for these loans.

We classified all loans to borrowers that used nontraditional sources of income documentation, such as bank statements (business or personal), as alternative documentation loans. Alternative documentation was used on 584 of the 1,169 mortgage loans (61.4% by balance), with most borrowers using 12-23 months of income verification. We view income verification using alternative documentation to be a weaker standard than full documentation of income. Consequently, we increased our loss coverages for these loans by an adjustment factor ranging from 1.75x to 2.00x.

One hundred sixty-two loans in the pool (7.3% by pool balance) were underwritten under a lending program that considers investment property cash flow rather than a borrower's verified income. We classified these loans as "other documentation loans" with a DSCR flag and applied a 3.15x-5.06x adjustment to the foreclosure frequencies based on the provided DSCR calculation. The DSCR calculations provided by the issuer for these loans ranged from 0.79 to 2.55.

Three loans in the pool (0.3% by pool balance) were underwritten by a lending program that considers accumulated assets rather than a verified income stream. We classified these loans as "other documentation loans" and applied a 3.00x adjustment to the foreclosure frequencies.

PCE classification and analysis

The borrowers on a portion of the mortgage loans have had one or more PCEs, such as bankruptcies and/or housing-related PCEs (e.g., foreclosures, short sales, or deed-in-lieu of foreclosure) that may have limited their access to loan products offered by the various agencies. Although these borrowers' updated FICO scores likely reflect their PCEs, we made an incremental adjustment to the pool-level loss coverage to account for this unique pool characteristic. We believe that borrowers' behavior surrounding a PCE could indicate what they would do when faced with a similar situation in the future, and suggests a greater likelihood that they would default, notwithstanding this and other adverse performance already incorporated in their updated FICO score. Therefore, these borrowers may behave similarly to borrowers who are 30 days' delinquent.

We focused primarily on prior bankruptcy, foreclosure, short sale, and deed-in-lieu events (24 months from the cut-off date for bankruptcy discharges or dismissals and 36 months from the cut-off date for housing-related events). For loans to borrowers with more seasoned PCEs, we believe that the risks associated with those PCEs are reflected in the updated FICO.

We applied a pool-level PCE-related loss coverage adjustment factor of 1.10x, which was derived from the 2.50x weighted average factor (30-day delinquent loan factor) for 107 loans (7.0% by balance) and a 1.00x factor for the remaining loans in the mortgage pool.

QM and ATR standards

The Consumer Financial Protection Bureau issued final regulations for mortgage loans with applications submitted on or after Jan. 10, 2014, specifying the standards for a QM. The rule applies to all mortgage loans included in this securitization. Per the designation provided by the sponsor, most loans are categorized as non-QM/ATR compliant (85.4% by balance) (see table 4 for a QM breakout).

Table 4

Qualified Mortgage Breakout

QM status	Loan count (no.)	% by pool balance	Pool balance ($)
QM/non-HPML	0	0.00	0
QM/HPML	3	0.27	1,045,889
Non-QM/ATR compliant	888	85.42	325,673,270
Not covered/ATR exempt	278	14.30	54,534,407

QM--Qualified mortgage. HPML--Higher-priced mortgage loan. ATR--Ability to repay.

Under the ATR rule, the originator and any assignee are jointly and separately liable for certain damages that may be incurred from noncompliance with the rule (see Appendix I of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018). We applied our QM criteria for each loan subject to the rule, which increased our loss coverage estimates at each rating category. The data the issuer provided to S&P Global Ratings, including additional fields that validate the loan's QM designation, were reviewed by the due diligence firms under the third-party due diligence firms' scope to verify that documentation exists to support the QM designation. Also, in conjunction with our originator review, we concluded that Angel Oak's processes address the ATR risks.

Servicer advancing obligations

Select Portfolio Servicing Inc. (SPS), the servicer, must advance delinquent principal and interest (P&I) payments for any delinquent mortgage loan until that loan is either greater than 180 days' delinquent (limited P&I advancing) or the P&I advance is deemed unrecoverable. In the event that SPS fails to advance P&I, the master servicer, Wells Fargo Bank N.A., is obligated to make those advances.

Unlike P&I advances, the servicers must make advances of delinquent taxes and insurance (and other property preservation advances) for any delinquent mortgage loan until the related property is liquidated or the servicer deems the advance to be nonrecoverable. We adjusted the loss severities in our model to account for this limited P&I advancing.

Borrowers with multiple loans

We made no additional adjustments to the loss coverage and the tail-risk analysis due to borrowers with multiple loans in the transaction, as only 23 borrowers have multiple loans. These loans combined represent 2.8% of the pool balance.

Structural Features

Like other nonprime RMBS transactions, AOMT 2019-3 is a mix of pro rata and sequential structures. Principal is paid pro rata among the senior classes (subject to passing cumulative loss and delinquency trigger tests) and then sequentially to the mezzanine and subordinate classes. In the periods when the cumulative loss or delinquency trigger test fails, principal is paid sequentially to the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates.

Since the class A-1, A-2, and A-3 certificates can receive principal pro rata, the amount of protection to the class A-1 and A-2 certificates can decline over time. In our analysis, the delinquency and cumulative loss trigger may help protect the more senior classes by allowing the payment mechanism to switch to sequential earlier, thus preserving subordination and requiring less upfront credit enhancement.

The transaction also uses excess monthly cash flow to cover the current period's realized losses and to reimburse any previously applied realized loss amounts. This feature allows the class B-1 and B-2 certificates to have an initial credit enhancement provided by subordination that is lower than our estimated loss coverage amount.

The paying agent, based on information provided by the servicer, will make monthly interest distributions from the interest remittance amount, pay any unpaid interest from the principal remittance amount, and make principal distributions from the principal remittance amount.

The interest remittance amount includes the interest collected from or advanced on behalf of borrowers (including interest payments that accompany prepayments, any compensating interest, and interest portions of liquidation proceeds net of expenses, subsequent recoveries, termination prices, and repurchase amounts) minus master servicing fees, servicing administrator fees, trustee fees, custodial fees, representation and warranty reviewer fees, the servicer advance reimbursements permitted under the pooling and servicing agreement, reimbursable expenses incurred by the controlling representative, and extraordinary expenses, which are generally subject to a $350,000 annual cap. Although the extraordinary expenses are passed through as reduced contractual interest due to certificateholders, we ran these expenses at their capped amounts (as described further in the Interest Stresses section below). We also considered the extraordinary expenses when analyzing projected interest reduction amounts (as described further in the Imputed Promises Analysis section below).

The principal remittance amount includes the principal collected from or advanced on behalf of borrowers (including prepayments, principal portions of liquidation proceeds net of expenses, subsequent recoveries, termination prices, and repurchase amounts) minus fees, including extraordinary expenses, subject to the annual cap, that could not be paid from the interest remittance amount. (See tables 5-7.)

Table 5

Interest Payment Waterfall

Priority	Payment
1	Interest and interest carryforward amounts (i) sequentially to the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates.
2	Any remaining amount paid as part of monthly excess cash flow.

(i)Interest carryforward amounts are deferred interest payments that accrue interest at the lower of the respective fixed coupon and the net WAC rate. Our ratings address the full payment of all interest and interest carryforward amounts by the final maturity date. WAC--Weighted average coupon.

Table 6

Principal Payment Waterfall

Priority	Payment
If delinquency and cumulative loss trigger tests pass	
1	Unpaid interest and interest carryforward amounts sequentially to class A-1, A-2, and A-3 certificates.
2	Principal pro rata to class A-1, A-2, and A-3 certificates, until the class balances are reduced to zero.
3	Unpaid interest and interest carryforward amount to class M-1 certificates.
4	Principal to class M-1 certificates, until the class balance is reduced to zero.
5	Unpaid interest and interest carryforward amount to class B-1 certificates.
6	Principal to class B-1 certificates, until the class balance is reduced to zero.
7	Unpaid interest and interest carryforward amount to class B-2 certificates.
8	Principal to class B-2 certificates, until the class balance is reduced to zero.
9	Unpaid interest and interest carryforward amount to class B-3 certificates.
10	Principal to class B-3 certificates, until the class balance is reduced to zero.
11	Reimburse previously allocated applied realized losses, sequentially to class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates.
12	Any remaining amounts paid as part of monthly excess cash flow.
If delinquency or cumulative loss trigger tests fail	
1	Unpaid interest and interest carryforward amount to class A-1 certificates.
2	Principal sequentially to class A-1 certificates, until the class balances are reduced to zero.

Table 6

Principal Payment Waterfall (cont.)

Priority	Payment
3	Unpaid interest and interest carryforward amount to class A-2 certificates.
4	Principal sequentially to class A-2 certificates, until the class balances are reduced to zero.
5	Unpaid interest and interest carryforward amount to class A-3 certificates.
6	Principal to class A-3 certificates, until the class balance is reduced to zero.
7	Unpaid interest and interest carryforward amount to class M-1 certificates.
8	Principal to class M-1 certificates, until the class balance is reduced to zero.
9	Unpaid interest and interest carryforward amount to class B-1 certificates.
10	Principal to class B-1 certificates, until the class balance is reduced to zero.
11	Unpaid interest and interest carryforward amount to class B-2 certificates.
12	Principal to class B-2 certificates, until the class balance is reduced to zero.
13	Unpaid interest and interest carryforward amount to class B-3 certificates.
14	Principal to class B-3 certificates, until the class balance is reduced to zero.
15	Reimburse previously allocated applied realized losses, sequentially to class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates.
16	Any remaining amounts paid as part of monthly excess cash flow.

Table 7

Monthly Excess Cash Flow Waterfall

Priority	Payment
1	Sequentially to the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates up to the realized loss amount for the current period until their respective class certificates are reduced to zero.
2	Sequentially up to the cumulative applied realized losses (if any) to class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 until certificate amounts are reduced to zero, and then sequentially reimburse class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 for applied realized loss amounts previously allocated thereto.
3	To the cap carryover reserve account, from monthly excess amount otherwise distributable to the class XS certificates, up to the aggregate cap carryover amount for class A-1, A-2, A-3, M-1, B-1, and B-2 certificates; from the cap carryover reserve account, any unpaid cap carryover amounts(i) sequentially to the class A-1, A-2, A-3, M-1, B-1, and B-2 certificates.
4	To class XS certificates, any remaining class XS distribution amount(ii).
5	To class R certificates, any remaining amounts.

Note: Our preliminary ratings do not address the payment of cap carryover amounts. (i)The cap carryover amount is the positive difference between the interest that would have accrued at the coupon rate (without regard to the net WAC rate) and what was actually due based upon the net WAC rate. Any prior unpaid cap carryover amounts also accrue at the coupon rate without regard to the net WAC rate. (ii)Net WAC less coupons of the A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates and carryover payments, plus prepayment premiums. PSA--Pooling and servicing agreement. WAC--Weighted average coupon.

Interest on classes A-1, A-2, A-3, M-1, B-1, and B-2 is based on the lower of the fixed coupon rate on the certificates and the net weighted average coupon (WAC) rate (defined as the weighted average of the mortgage interest rates of the loans, net of fees, and extraordinary expenses weighted based on the loans' stated principal balances). In line with our imputed promises criteria, our preliminary ratings address the lower of these two rates (see "Principles For Rating Debt Issues Based On Imputed Promises," published on Dec. 19, 2014). Interest on class B-3 is equal to the net WAC rate.

Under the transaction documents, the issuer can defer interest payments on these securities. A failure to pay the interest amounts due on the securities will result in the interest being deferred. Deferred interest (interest carryforward amounts) accrues at the lower of the fixed coupon rate and net WAC rate for classes A-1, A-2, A-3, M-1, B-1, and B-2, and at the net WAC rate for class B-3. Our preliminary ratings address ultimate P&I payments (including interest carryforward amounts) by the certificates' final maturity date.

Our preliminary ratings, however, do not address the payment of the cap carryover amounts (i.e., the difference between the fixed coupon and the net WAC cap where the fixed coupon exceeds the net WAC cap), which are subordinated in the payment priority. In our view, neither the initial coupons on the certificates nor the initial net WAC rate are de minimis, and nonpayment of the cap carryover amount is not considered an event of default under the transaction documents. Therefore, in line with our criteria for imputed promises, we do not consider whether these cap carryover amounts are paid in our cash flow analysis.

The mezzanine and subordinate certificates are paid principal sequentially after all senior certificates have been paid off. Unlike the credit enhancement seen in shifting-interest RMBS structures, which may deplete due to scheduled and prepaid principal paid to the subordinate classes, the credit enhancement in AOMT 2019-3 does not deplete since no principal payments are made to these classes while the senior classes are outstanding (unless there is a writedown).

Although principal is paid pro rata among the senior classes from the start, and there is no defined credit enhancement floor that would switch the senior classes' payment priority to sequential, we are comfortable that the transaction is adequately enhanced for the assigned preliminary ratings, taking into account any tail-risk considerations given that the transaction starts with 19.50% enhancement for the senior classes, which then grows as a percentage of the current balance as the senior classes get paid down (see the Large Loans And Tail Risk Considerations section). Additionally, the cumulative loss trigger (see table 8) protects the more senior classes in tail-risk situations if defaults increase much later in the transaction's life (a back-ended default curve) by switching the payment priority among the senior classes to sequential. Furthermore, the AOMT 2019-3 delinquency trigger protects the more senior classes if delinquencies (leading indicators of adverse pool performance) breach certain levels (see table 9).

Table 8

Cumulative Loss Trigger Event

Distribution date occurring in the following periods	Applied realized loss amounts since the closing date (as a % of the cut-off date pool balance)
June 2019 through May 2022	2.00
June 2022 through May 2023	3.00
June 2023 through May 2024	6.00
June 2024 and thereafter	8.00

Table 9

Delinquency Trigger Event

Distribution date occurring in the following periods	60+ days delinq., plus loans modified in past 12 months (six-month average as a % of the current pool balance)
June 2019 through May 2022	20.00
June 2022 through May 2024	25.00
June 2024 and thereafter	30.00

Delinq.--Delinquent.

If the aggregate class balance of the certificates exceeds the pool balance, the resulting excess (the applied realized loss amount) is applied reverse-sequentially to the class B-3, B-2, B-1, M-1, A-3, A-2, and A-1 certificates until each class' principal balance has been reduced to zero.

If the pool balance exceeds the aggregate class balance of the certificates (after the allocation of principal payments and monthly excess cash flow to pay down the certificates), the balances of the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates will be written up sequentially in that order to the aggregate amount of applied realized losses previously allocated.

Geographic Concentration

S&P Global Ratings analyzes the pool's geographic concentration risk based on the concentrations of loans in each of the core-based statistical areas (CBSAs) as defined by the U.S. Office of Management and Budget (see Appendix II of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018). In this transaction, the top five CBSAs account for nearly 26.7% of the aggregate pool (see table 10). Because of this concentration, we applied a geographic concentration adjustment factor of 1.00x to our base loss coverage estimate.

Table 10

Geographic Concentration

CBSA code(i)	CBSA	State	% by balance
12060	Atlanta-Sandy Springs-Roswell	GA	6.64
31084	Los Angeles-Long Beach-Glendale	CA	6.43
33124	Miami-Miami Beach-Kendall	FL	5.07
22744	Fort Lauderdale-Pompano Beach-Deerfield Beach	FL	4.96
38060	Phoenix-Mesa-Scottsdale	AZ	3.63
Top five	--	--	26.73

(i)CBSA code refers to the metropolitan division code, if available. CBSA--Core-based statistical area (includes metropolitan statistical areas and metropolitan divisions where defined, as well as micropolitan statistical areas). CBSA--Core-based statistical area.

Large Loans And Tail-Risk Considerations

As the number of loans in the transaction decreases, the effect of a single loan's losses becomes greater. If conditional prepayment rates are slow and collateral pool losses are not realized until later in a transaction's life (back-loaded losses), pro rata pay mechanisms can then leave the senior classes exposed to event risk later in the transaction's life (for more information on tail risk in RMBS transactions, see "Older RMBS Transactions Face Increased Tail Risk As Their Pools Shrink," published Aug. 9, 2012). To mitigate this risk, the transaction documents for shifting interest structures typically provide for a credit enhancement floor, specifying principal payments not be made to subordinate classes if the credit support available to the senior classes falls below a threshold. This transaction does not explicitly define a credit enhancement floor. However, due to the sequential payment mechanism to the mezzanine and subordinate classes, which make up 19.50% of the capital structure, the preliminary 'AAA (sf)', 'AA (sf)', and 'A (sf)' rated classes effectively have a floor of 19.50% initially. Although subordination can be depleted due to realized losses over time, the effective floor to the more senior classes can increase when delinquencies or losses go over certain thresholds and trip the delinquency or cumulative loss triggers, making the payment priority fully sequential.

To analyze the appropriateness of this effective credit enhancement floor, we use an approach outlined in "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018. Per this approach, instead of focusing on the largest loans by balance at issuance, we risk-weight the loans in the transaction by focusing on those loans with the largest expected loss exposure, assuming default.

After considering the enhancement provided in the transaction in conjunction with the delinquency and cumulative loss trigger definitions and the expected paydown on the notes, we believe the rated senior notes are sufficiently protected from tail risk as the transaction seasons.

Mortgage Operational Assessment (MOA)

We conducted a review of Angel Oak Mortgage Solutions LLC's and Angel Oak Home Loans LLC's (collectively, "Angel Oak") acquisition process for non-QM residential mortgage loans. The overall AVERAGE MOA ranking of Angel Oak is based on a qualitative subranking of AVERAGE and a quantitative subranking of ABOVE AVERAGE. As a result, we determined to apply a 0.95x loss coverage adjustment factor to all of the loans in this transaction.

For this specific transaction, we are also applying the same loss coverage adjustment factor of 0.95x to the 0.39% of the loans originated by Angel Oak Prime Bridge LLC because of the type of loans (DSCR loans) and because the qualitative review process for these loans is in line with that of loans originated by Angel Oak Mortgage Solutions LLC and Angel Oak Home Loans LLC.

Angel Oak is a private Atlanta, Ga.-based full-service residential nonbank mortgage finance company that specializes in the origination of nonqualified mortgage (non-QM) loans to borrowers who do not meet standard agency guidelines, primarily through the Angel Oak Mortgage Solutions LLC (AOMS) entity. Angel Oak Companies also offers originations with a specialized focus on Federal Housing Administration (FHA), Veteran Affairs (VA), jumbo, and nonprime portfolio products through its traditional retail entity, Angel Oak Home Loans LLC (AOHL). The two entities, AOMS and AOHL, are part of the Angel Oak companies, which, since inception in 2008, has transformed into a family of companies that engages in asset management, resi finance, and financial advisory services. AOHL and AOMS originate mortgage loans, primarily sell them to one of two Angel Oak private fund entities, and retain servicing rights on most of their loan production. Their strategy is to remain a purchase-driven platform, which positions them to leverage their portfolio offerings and offset downturns in the market. Their strategy, targeted lending programs, and entry to markets through diverse lending channels (broker, retail, and correspondent being the largest) have supported Angel Oak's record growth in the non-QM mortgage space.

Our AVERAGE quantitative subranking is based on our review of loan performance provided by

Angel Oak and information from external sources. Overall, Angel Oak's historical delinquencies, early payment defaults, and repurchases were in line with our expectations for post-crisis residential originations.

The ABOVE AVERAGE qualitative subranking reflects our assessment of the following strengths and weaknesses.

Strengths:

- An experienced and well-tenured senior management team averaging 25 years of industry experience.
- A long operational track record (the company has been originating non-QM loans since 2014 and standard agency loans since 2011, and issuing securitizations since 2015).
- The companies' continuous focus on automation improvements, with recent projects' focus on optimization and data integrity, which promotes quality and consistency in the data used to run the businesses.
- The absence of legacy issues, allowing it to build a holistic approach for its growth strategies during a time when there are greater post-crisis regulations, which helps control for better loan quality and borrower creditworthiness.
- Servicing retention on the majority of its loans.
- Extensive use of third-party tools to verify borrower and loan information.
- Use of multiple appraisal management companies (AMCs);
- Strong internal control processes.
- Robust pre- and post-funding quality controls (QCs), which include the use of an independent vendor for post-funding QC reviews for at least 10% of originated loans, as well as comprehensive QC reports. Angel Oak has historically reviewed 30% of loan production prior to funding, well exceeding the industry average; however, there is no certainty that the higher-QC prefunding reviews will continue with further growth and expansion.
- Mortgage loan origination through multiple lending channels (wholesale, correspondent, and retail), which reduces the overall fixed costs associated with a loan.
- Strong independent internal risk oversight with multiple specialized risk teams, including its internal audit and compliance functions.
- An established internal auditing platform, which sits under AOHL, but also services AOMS. Angel Oak shared its internal audit, quality assurance, and QC schedules. The company reported no material findings.
- Thorough reviews of its brokers and correspondents, which include the use of performance scorecards to monitor them.
- Expansive access to capital through multiple warehouse funding lines and two Angel Oak private fund entities that purchase most of their loan production.

Weaknesses:

- The limited operating history with the company of certain executives (notwithstanding their significant industry experience) following Angel Oak's significant expansion through its origination channels (correspondent channel), product lines, and national footprint.

- A high turnover rate for AOMS and AOHL (average of 34% in 2018), which was primarily the result of streamlining the origination and operations functions for AOHL.

Third-Party Due Diligence Review

The third-party due diligence providers--AMC Diligence LLC and Clayton Services LLC, both of which are on our list of reviewed providers--performed due diligence on 100% of the pool's loans. The scope of their reviews encompassed credit (underwriting) compliance, property valuations, regulatory compliance, and data quality.

Some loans fell within the scope of the TILA-RESPA Integrated Disclosure (TRID) rule. For these loans, the third-party firms followed the Structured Finance Industry Group (SFIG) RMBS 3.0 TRID Compliance Review Scope in conducting their final loan reviews (see "Standard & Poor's Comfortable With SFIG Draft Proposal Regarding TRID Due Diligence," published April 25, 2016). In accordance with our criteria, we adjust our loss expectations based on our view of the firms' findings (see Appendix III of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018).

Certain loans received final property valuation review risk grade of 'C' due to a secondary property valuation resulting in a value in excess of negative 10% variance to the original appraisal value.

Certain loans had TRID rules findings, in which case we added $34,000 to our loss severity estimate at all rating categories.

After reviewing the third-party due diligence results, we applied a final rounded adjustment of 1.00x to the loss coverage at all rating categories.

R&Ws

According to our criteria (see Appendix IV of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018), we review the R&Ws made in connection with a rated transaction. We will evaluate the strength of such R&Ws and consider whether any breach could have a materially adverse impact on the interests of the transaction's certificateholders. If the transaction's R&Ws do not address the issues in our published R&W framework, we will determine whether we believe it is appropriate to assess additional credit enhancement. Lastly, we will consider the R&W provider's ability to fulfill its obligations in the event of a breach.

The loans in this transaction were originated by Angel Oak Home Loans LLC, Angel Oak Mortgage Solutions LLC, and Angel Oak Prime Bridge LLC (collectively, "the Angel Oak originators").

On the closing date, Angel Oak Mortgage Solutions LLC (the representation provider) will make certain representations and warranties regarding the mortgage loans in the pooling and servicing agreement.

The representations and warranties made by the representation provider are based on the representation provider's diligence of the mortgage loans or review or knowledge of the mortgage loan documents. Subject to certain procedures, the representation provider will be required to repurchase the mortgage loans with respect to which a material breach has occurred, substitute an additional mortgage loan for such mortgage loan, or make an indemnity payment equal to the make-whole amount to the issuing entity in respect of any such mortgage loan that is a liquidated loan.

Review process

The review process described below, together with any arbitration proceeding related to such review, will be the sole method to determine the occurrence of any breach by the representation provider of any representation or warranty in respect of any mortgage loan, and none of the parties to the pooling and servicing agreement or the certificateholders may seek judicial review of any such determination.

The representation and warranty reviewer (Covius) will conduct a review of a mortgage loan (a) if a realized loss has occurred with respect to an ATR notice loan or (b) upon the failure to deliver any related mortgage loan document required to be delivered to the custodian as part of the mortgage files, which failure remains uncured for one year following the closing date (each, an "automatic review trigger"). Additionally, if a realized loss occurs with respect to any mortgage loan (other than an ATR notice loan), holders of greater than 25% of the aggregate outstanding certificate principal balance (such holders, the "review triggering certificateholders") may, nevertheless, notify the trustee, in accordance with the provisions of the pooling and servicing agreement, to engage the representation and warranty reviewer to commence a review of the related mortgage loan ("certificateholder review trigger" and, together with the automatic review trigger, the "review triggers").

With respect to mortgage loans that were originated 90 days or fewer prior to the closing date, the representation provider will be required to repurchase an mortgage loan in the event that such mortgage loan becomes 60 or more days delinquent (based on the Mortgage Bankers Association (MBA) method) within the first three months following the date of origination of such mortgage loan, unless the default was the result of (a) a servicing issue that has subsequently been or will be corrected or (b) death or serious illness that resulted in full disability or the termination of employment of the mortgagor (or, if the co-mortgagor is the primary wage earner, the co-mortgagor) (an "early payment default").

R&W framework

The R&Ws related to the individual mortgage loans provided in the mortgage loan sale agreement (PPM) generally are consistent with the R&Ws language reflected in our published criteria. The issuer will include an early payment default covenant similar to what is seen in other non-QM transactions, but weaker than what we typically look for in a rated transaction.

Framework strengths

All representation and warranty reviews are performed by an independent third party (Covius). The representation and warranty reviewer is required to remedy any ensuing R&W breach if it has a materially adverse impact on the loan by: curing the breach, repurchasing the loan at the repurchase price, or prior to the date that is two years following the closing date substitute a mortgage loan and remit the related substitution adjustment amount, as applicable, or in the case of a liquidated loan, pay the issuer the make-whole amount (indemnity payment).

Framework weaknesses

The representation provider does not have an outstanding debt rating which indicates it may have financial difficulty repurchasing mortgage loans in a stressed economic period. Furthermore, 25% or more of the certificateholders are required to initiate a R&W review which is not related to an ATR claim, judicial TRID findings, or deficient documentation issues.

The early payment default covenant is weaker than what we typically look for in a rated transaction, which would generally call for the R&W provider to repurchase a mortgage loan where the borrower fails to make any of the first three monthly payments due after the origination date unless the delinquency was a result of a servicing issue that has subsequently been or will be corrected. For this transaction, in addition to a carveout for servicing transfer issues, there is a carveout for the death, disability, or serious illness of the borrower, as well as a carveout for the termination of employment of the borrower, which we consider a weakness.

Although the MOA's result reflects a solid origination platform, in our opinion, the representation provider has limited repurchasing ability. Therefore, we applied a 1.10x loss coverage adjustment to compensate for the risk associated with the financial capacities of the R&W provider and the overall R&W framework. We believe this adjustment is appropriate in the context of the 100% due diligence performed on the loans and the collateral's relative credit quality.

Cash Flow And Scenario Analysis

We reviewed the transaction structure and performed a cash flow analysis to simulate various rating stress scenarios (see table 11) to determine the preliminary ratings for each class consistent with our criteria, accounting for the available credit enhancement (see table 12). We analyzed a variety of scenarios for each rating category, including combinations of:

- Standard and back-loaded default timing curves;
- Two-year recovery lag assumptions;
- Fast and slow prepayment assumptions;
- High, low, and forward interest rate curve assumptions;
- WAC deterioration stress assumptions; and
- Extraordinary expense assumptions.

Table 11

Cash Flow Assumptions

	Scenario					
	AAA	AA	A	BBB-	BB	B
Recovery lag (mos.)	24	24	24	24	24	24
Prepayments (%)(i)						
Low CPR	1	2	3	4	5	6
High CPR	20	20	20	20	20	20
Servicer stop advance (%)	N/A	N/A	N/A	N/A	N/A	N/A
Foreclosure frequency (%)	57.19	50.25	39.98	26.90	20.12	10.52
Loss severity (%)	62.16	57.21	47.65	41.82	37.28	32.79
Loss coverage (%)	35.55	28.75	19.05	11.25	7.50	3.45

(i)Using a standard prepayment convention. CPR--Conditional prepayment rate. N/A--Not applicable.

Table 12

Structural Assessment

Class	Preliminary rating	Initial class size (%)	Initial credit enhancement (%)	Loss coverage (%)	Percentage point difference between credit enhancement and loss coverage
A-1	AAA (sf)	59.55	40.45	35.55	4.90
A-2	AA (sf)	7.00	33.45	28.75	4.70
A-3	A (sf)	13.95	19.50	19.05	0.45
M-1	BBB- (sf)	8.20	11.30	11.25	0.05
B-1	BB (sf)	4.25	7.05	7.50	(0.45)
B-2	B (sf)	4.35	2.70	3.45	(0.75)
B-3	NR	2.70	0.00	N/A	N/A

NR--Not rated. N/A--Not applicable.

Due to the limited P&I advance obligation, we did not apply our typical servicer stop advance stresses. Instead, we assumed that P&I advances were not being made in our cash flow projections. This assumption resulted in no projected monthly cash flows on defaulted loans that have not yet been liquidated (we assumed up to a 24-month lag between default and liquidation). Our cash flow projections consider this additional liquidity stress and the transaction's ability to make monthly interest payments and, if necessary, deferred interest payments (interest carryforward amounts) by the final maturity date on the rated classes.

We applied the foreclosure frequencies, loss severities, and combinations of the stresses noted above in our cash flow runs, and observed some periodic missed interest due to the liquidity stress associated with no advancing. To pass our applicable rating-specific stresses, the interest deferrals (or interest carryforward amounts) resulting from any missed interest payments on the securities have to be paid in full by the maturity date. All deferred interest was paid back with interest under the applicable rating-specific stresses in our cash flow projections. The results show that each preliminary rated class in the transaction is enhanced to a degree consistent with the assigned preliminary ratings.

Servicer stop advance stresses

Although the transaction documents provide for up to six months of P&I advance obligation, we assumed that no P&I advances were being made in our cash flow projections. This assumption results in no projected monthly cash flows on defaulted loans that have not yet been liquidated (we assume a 24-month lag between default and liquidation). Our cash flow projections take into account this additional liquidity stress and the transaction's ability to make monthly interest payments and, if necessary, deferred interest payments (interest carryforward amounts) by the final maturity date on the preliminary rated classes. We also modeled a delinquency curve per our criteria solely for the purpose of testing the delinquency trigger. We did not apply servicer stop advance stresses to these additional delinquencies. In our view, the stressed assumption of no advances on the defaulted loans in the lag period adequately captures the liquidity risk associated with the delinquencies.

Weighted average coupon (WAC) deterioration stress

The transaction structure allows excess spread to provide some of the credit enhancement. We applied a WAC deterioration stress that steps up linearly from zero basis points (bps) to 115 bps over 10 years. And it remains at that level going forward to address the potential for the pool's WAC to decline as higher coupon loans prepay or default and thus stress the excess spread.

Interest stresses

In this transaction, extraordinary trust expense payments reduce the net WAC rate, which effectively allocates the extraordinary trust expenses pro rata across all senior and subordinate certificateholders by reducing their interest payments by the amount of the extraordinary trust expenses paid (subject to the annual cap). Although the extraordinary expenses are passed through as reduced contractual interest due to certificateholders, we ran these expenses at their capped amounts, and apply an extraordinary trust expenses (ETE) application factor at the respective rating level, to test any impact on the securities due to their dependence on excess spread as a form of credit enhancement and the presence of certain structural features, such as limited P&I advancing. We also took this approach because interest payments on the securities are deferrable.

Imputed Promises Analysis

Per our criteria "Methodology For Incorporating Loan Modifications And Extraordinary Expenses Into U.S. RMBS Ratings," published April 17, 2015, when rating U.S. RMBS transactions where credit-related events can reduce interest owed to the tranches across the capital structure rather than an allocation of such credit-related loss to the available credit support, we impute the interest owed to the security holders. WAC deterioration that occurs because of defaults, repurchases, or prepayments is not considered credit-related; therefore, it is not considered as part of this analysis.

Because this transaction provides for credit-related loan modifications and extraordinary trust expenses to reduce the net WAC, at which the transaction's bond coupons are capped, we applied the approach outlined in the criteria to assess the maximum potential rating (MPR) that could apply, based on our projected interest reduction amount (PIRA). As this is a new-issue transaction, we did not account for any cumulative interest reduction amount.

Consistent with our criteria, we assumed that 50% of the loans projected to default would be modified, which, when added to the extraordinary trust expenses, resulted in a maximum PIRA on the preliminary rated certificates that is below the 4.5% threshold. We stressed extraordinary trust expenses by the relevant extraordinary expense application factor over four years, between payment period 13 and 60. Based on the results of our analysis, there was no impact on the securities' MPR.

Historically, we have observed that extraordinary trust expenses have been minimal when they occur and have been extremely limited in pre-2009 RMBS transactions. We continue to expect their actual occurrence in post-2009 transactions to be rare.

Operational Risk Assessment

Our criteria "Global Framework For Assessing Operational Risk In Structured Finance Transactions," published Oct. 9, 2014, present our methodology and assumptions for assessing certain operational risks (severity, portability, and disruption risks) associated with asset types and key transaction parties (KTPs) that provide an essential service to a structured finance issuer. As outlined in the criteria, we cap the ratings on a transaction if we believe operational risk could lead to credit instability and affect the ratings.

As provided in the operational risk criteria, for severity risk and portability risk, there are three possible rankings: high, moderate, or low. For disruption risk, there are four possible rankings: very high, high, moderate, or low. The rankings for each of the three risks determine the MPR that can be assigned to a structured finance security for a given KTP before giving consideration to any provisions for a backup KTP, such as a master servicer.

According to our criteria, we rank severity and portability risk for nonprime residential mortgage collateral as moderate and low, respectively. In this transaction, the servicer (SPS) is a KTP. We assess the disruption risk for SPS as low. After assessing the severity, portability, and disruption risks for SPS, we determined the ratings on the certificates would not be affected and, thus, we did not apply a cap to the ratings on this transaction.

Related Criteria

- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: U.S. Residential Mortgage Operational Assessment Ranking Criteria, Feb. 22, 2018
- Criteria | Structured Finance | RMBS: Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later, Feb. 22, 2018
- Criteria - Structured Finance - RMBS: Assumptions Supplement For Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later, Feb. 22, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Structured Finance | General: Structured Finance Temporary Interest Shortfall Methodology, Dec. 15, 2015
- Criteria - Structured Finance - RMBS: Methodology For Incorporating Loan Modifications And Extraordinary Expenses Into U.S. RMBS Ratings, April 17, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Structured Finance - General: Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012

- Criteria | Structured Finance | RMBS: U.S. Interest Rate Assumptions Revised For May 2012 And Thereafter, April 30, 2012
- Criteria | Structured Finance | General: Global Methodology For Rating Interest-Only Securities, April 15, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- S&P Global Ratings Publishes List Of Third-Party Due Diligence Firms Reviewed For U.S. RMBS As Of May 17, 2019, May 17, 2019
- Select Servicer List, April 17, 2019
- Economic Research: U.S. GDP Growth Hits A Soft Patch--Not Quicksand, April 4, 2019
- Servicer Evaluation: Select Portfolio Servicing Inc., Dec. 21, 2018
- S&P Global Ratings Definitions, Oct. 31, 2018
- Servicer Evaluation: Wells Fargo Bank N.A.--Residential Master Servicer, Sept. 6, 2018
- Credit Rating Model: LEVELS Model For U.S. Residential Mortgage Loans, Aug. 24, 2018
- U.S. Residential Mortgage Input File Format For LEVELS, March 30, 2018
- Credit Rating Model: Intex RMBS Cash Flow Model, April 7, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Cox Ingersoll Ross (CIR) For U.S. RMBS And ABS, Dec. 13, 2016
- Standard & Poor's Comfortable With SFIG Draft Proposal Regarding TRID Due Diligence, April 25, 2016
- Older RMBS Transactions Face Increased Tail Risk As Their Pools Shrink, Aug. 9, 2012

In addition to the criteria specific to this type of security (listed above), the following criteria articles, which are generally applicable to all ratings, may have affected this rating action: "Counterparty Risk Framework: Methodology And Assumptions," March 8, 2019; "Post-Default Ratings Methodology: When Does Standard & Poor's Raise A Rating From 'D' Or 'SD'?," March 23, 2015; "Global Framework For Assessing Operational Risk In Structured Finance Transactions," Oct. 9, 2014; "Methodology: Timeliness of Payments: Grace Periods, Guarantees, And Use of 'D' And 'SD' Ratings," Oct. 24, 2013; "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," Oct. 1, 2012; "Methodology: Credit Stability Criteria," May 3, 2010; and "Use of CreditWatch And Outlooks," Sept. 14, 2009.