

Presale:

Imperial Fund Mortgage Trust 2020-NQM1

October 6, 2020

Preliminary Ratings

Class	Preliminary rating(i)	Class type	Initial interest rate (%) (ii)	Preliminary amount (\$)	Credit enhancement (%) (iii)
A-1	AAA (sf)	Senior/pro rata	Fixed	89,085,000	38.80
A-2	AA (sf)	Senior/pro rata	Fixed	10,189,000	31.80
A-3	A (sf)	Senior/pro rata	Fixed	18,414,000	19.15
M-1	BBB (sf)	Mezzanine/sequential	Fixed	8,807,000	13.10
B-1	BB (sf)	Subordinate/sequential	Fixed	7,205,000	8.15
B-2	B (sf)	Subordinate/sequential	Net WAC	6,186,000	3.90
B-3	NR	Subordinate/sequential	Net WAC	5,677,678	0.00
A-IO-S	NR	Excess servicing	(iv)	Notional(v)	N/A
X	NR	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 as of Oct. 6, 2020. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. (i) The collateral and structural information in this report reflects the term sheet dated Oct. 5, 2020. The preliminary ratings address the ultimate payment of interest and principal. (ii) Interest can be deferred on the classes. Coupons are subject to the pool's net WAC rate. Classes B-2 and B-3 equal the net WAC rate. (iii) This credit enhancement is solely from subordination. Excess spread also provides credit enhancement. (iv) Excess servicing strip minus compensating interest and advances owed to the servicer. (v) Notional amount equals the loans' aggregate stated principal balance. (vi) Excess of the interest accrued at net WAC rate on the mortgage loans over the aggregate interest accrued at the respective pass-through rates on the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates plus any prepayment premiums. WAC--Weighted average coupon. NR--Not rated. N/A--Not applicable.

Profile

Expected closing date Oct. 14, 2020.

Cut-off date Sep. 1, 2020.

First payment date Nov. 25, 2020.

Final scheduled payment date Oct. 25, 2055.

Certificates' amount, including unrated classes \$145.6 million, in aggregate.

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Profile (cont.)

Collateral type	First-lien, fixed- and adjustable-rate fully amortizing residential mortgage loans, secured by single-family residential properties, planned-unit developments, condominiums, and two- to four-family residential properties to both prime and nonprime borrowers. The pool has 457 loans, which are either non-qualified or exempt mortgage loans.
Collateral	U.S. residential mortgage loans.
Credit enhancement	For each class of rated certificate, subordination of the certificates that are lower in the payment priority and excess spread.

Participants

Issuer	Imperial Fund Mortgage Trust 2020-NQM1.
Sponsor/R&W provider/servicing administrator	Imperial Fund I LLC.
Depositor	Imperial Fund Mortgage Depositor LLC.
Servicer	A&D Mortgage LLC.
Subservicer	Specialized Loan Servicing LLC.
Master servicer	Nationstar Mortgage LLC.
Securities administrator and certificate registrar	Citibank N.A.
Custodian	Wilmington Trust N.A.
Trustee	Wilmington Savings Fund Society FSB.
Originator	A&D Mortgage LLC, contributing 99.52% of the pool balance, and various other originators contributing 0.48% by balance.

Primary Originator Making Up More Than 10% Of The Collateral

Entity	By balance (%)	Due diligence (%)	Originator ranking
A&D Mortgage LLC	99.52	100.00	AVERAGE

Servicers

	By balance (%)	S&P Global Ratings' select servicer	Operation	Originators
A&D Mortgage LLC	100.00	No	Primary servicer	All loans
Nationstar Mortgage LLC	100.00	Yes	Master servicer	All loans
Specialized Loan Servicing LLC	100.00	Yes	Subservicer	All loans

Rationale

The preliminary ratings assigned to Imperial Fund Mortgage Trust 2020-NQM1's (IMPRL 2020-NQM1) mortgage pass-through certificates reflect our view of:

- The pool's collateral composition (see the Collateral Summary section below);
- The transaction's credit enhancement;

- The transaction's associated structural mechanics;
- The pool's geographic concentration
- The transaction's representation and warranty (R&W) framework;
- The mortgage originator, primarily A&D Mortgage LLC; and
- The impact that the economic stress brought on by the COVID-19 pandemic will likely have on the performance of the mortgage borrowers in the pool (see "S&P Global Ratings Is Assessing The Impact Of COVID-19 On Mortgage Market Outlooks For Global RMBS," published April 17, 2020) and liquidity available in the transaction.

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the coronavirus pandemic. The current consensus among health experts is that COVID-19 will remain a threat until a vaccine or effective treatment becomes widely available, which could be around mid-2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Overview

IMPRL 2020-NQM1 is the sponsor's (Imperial) first non-qualified mortgage (non-QM) RMBS transaction. A&D Mortgage, an affiliate of the sponsor, originated all but three of the loans in the pool. A&D Mortgage (with Specialized Loan Servicing LLC as the subservicer) services the loans. Non-QM loans make up about 49.1% of the pool, with 50.9% being ATR-exempt investor property loans. The pool is geographically concentrated in Florida.

Noteworthy Features

Geographic concentration

The pool is geographically concentrated with 60.5% of the loans in Florida (with 30.9%, 10.5%, 6.8%, and 5.0% in the Miami, Ft. Lauderdale, Orlando, and West Palm Beach metropolitan divisions or core-based statistical areas [CBSAs] as applicable, respectively). Given that our Herfindahl-Hirschman Index geographic adjustment factor is calibrated based on the distribution of loans in our historical mortgage data set, which reflects similar concentrations in California but not Florida, we applied an additional 1.1x adjustment factor to loss coverage over and above our Herfindahl-Hirschman Index adjustment factor for a total geographic adjustment factor of 1.24x to account for the elevated concentration in Florida.

Foreign national concentration

About 16.8% of the loans have one or more foreign or non-permanent resident borrowers. We considered this concentration in our analysis and applied a 1.5x adjustment to the foreclosure frequencies of these loans, as mentioned in our criteria. Additionally, based on our analysis, 25 loans (3.7% by pool balance) do not have a credit score. We assumed a FICO score of 668 in our analysis of these loans, which reflects the simple average of original FICO scores in the pool less one standard deviation.

Loans in forbearance

On March 31, 2020, the CARES Act enacted COVID-19-related relief for borrowers with government-backed mortgage loans in the form of a temporary forbearance of up to 12 months of scheduled payments. While non-agency loans do not fall under the CARES Act as it relates to this forbearance, servicers have been granting forbearance plans to non-agency borrowers also, typically with some variations to those of the CARES Act (e.g., timeframe, approval requirements, etc.). The updates we made on April 17, 2020, to our mortgage outlook and corresponding archetypal foreclosure frequency levels account for a portion of borrowers entering COVID-19-related temporary forbearance plans and their impact to the overall credit quality of collateralized pools (see "Guidance: Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published April 17, 2020). To the extent a securitization pool exhibits higher-than-expected growth levels in forbearance over time, additional adjustments may be applied.

As of Oct. 1, 2020, two loans in the pool have completed a COVID-19-related forbearance plan and fully repaid the forborne payments. While we expect that temporary COVID-19-related forbearance will continue to be granted at some level as it relates to the securitization pool, given the small number of forbearance-impacted loans relative to the total pool, we did not adjust pool-level loss coverages on account of these loans.

Collateral Summary

IMPRL 2020-NQM1's assets consist primarily of fixed- and adjustable-rate fully amortizing non-QM loans secured by first liens. The mortgage pool comprises 457 mortgage loans with a principal balance of approximately \$145.6 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 non-QM residential mortgage pool (see table 1). The pool's 'AAA' and 'B' loss coverage requirements were determined to be 37.15% and 3.60%, respectively. In our analysis, we considered the following mortgage loan characteristics to be weaker (see the Strengths and Weaknesses section):

- Primarily non-QM loans,
- Alternative income documentation loans,
- Geographic concentration of the pool,
- Occupancy status (second home or investor property),
- Loan purpose (cash-out refinances),
- Loan type (adjustable-rate mortgage [ARM] loans),
- Self-employment status of borrowers, and
- Residency status of borrowers.

Table 1

Collateral Characteristics

	IMPRL 2020-NQM1	HOF Trust 2020-2	VERUS 2020-4	VSTA 2020-2	STAR 2020-3	GCAT 2020-NQM2	Archetypal pool(i)
Closing pool balance (mil. \$)	145.6	623.5	429.5	238.0	486.0	226.9	N/A
Closing loan count (no.)	457	1,241	1,084	516	1,064	353	N/A
Avg. loan balance (\$)	318,520	502,442	396,176	461,247	456,783	642,773	N/A
WA original CLTV (%)	70.7	70.1	68.6	70.2	69.2	69.7	75
WA current CLTV (%)	70.1	69.8	68.1	70.0	68.4	69.4	75.0
WA FICO(ii)	716	724	708	724	733	734	725
WA current rate (%)	5.9	6.1	6.2	5.8	5.3	5.4	N/A
WA original term (mos.)	360	385	371	378	362	373	360
WA seasoning (mos.)(iii)	7	6	7	6	7	5	0-6
WA debt-to-income (%)	32.6	36.7	36.9	38.9	37.6	37.9	36.0
WA DSCR (non-zero)	1.1	1.8	1.3	1.2	1.2	1.1	N/A
Owner occupied (%)	49.1	37.5	48.3	37.2	61.5	68.0	100.0
Single-family (including unattached and attached PUD) (%)	62.0	66.9	78.2	71.5	80.5	77.9	100.0
Fixed rate (%)	51.9	33.1	40.8	28.5	19.5	57.9	0.0
Adjustable-rate loans (%)	48.1	75.7	59.2	62.6	55.8	42.1	0.0
Loans with IO payments (%)	2.8	51.8	20.6	47.5	5.9	37.1	0.0
Purchase (%)	60.5	29.5	48.3	33.1	62.0	32.3	100.0
Cash-out refinancing (%)	31.1	56.2	37.5	50.2	26.2	41.2	0.0
Full documentation (%)	10.9	12.0	24.7	12.1	42.1	29.2	100.0
Alternative/bank statement documentation (%)	52.4	25.6	31.1	28.6	34.5	43.2	0.0
Other/asset depletion/DSCR documentation (%)	36.6	62.4	44.2	59.3	23.4	27.6	0.0
Self-employed borrowers (%)	51.1	35.1	51.6	34.8	42.7	58.9	0.0
Loans with co-borrowers (%)	17.3	25.2	24.5	25.4	21.1	36.8	0.0
Loans to borrowers with multiple mortgages %(iv)	8.1	25.3	6.9	14.0	6.9	6.5	N/A
Loans to foreign borrowers (%)(foreign national & non-permanent resident aliens)	16.8	2.1	12.7	1.3	7.6	1.1	0.0
Modified loans %(v)	0.0	0.0	3.9	0.0	0.8	0.0	0.0
PCEs %(v)	0.4	0.2	1.1	0.5	0.2	0.5	0.0
Current (%)	100.0	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	0.0
Forbearance (including active and completed) (%)	0.6	11.3	13.4	5.7	12.1	11.9	0.0

Table 1

Collateral Characteristics (cont.)

	IMPRL 2020-NQM1	HOF Trust 2020-2	VERUS 2020-4	VSTA 2020-2	STAR 2020-3	GCAT 2020-NQM2	Archetypal pool(i)
Length of P&I advancing (mos.)(vi)	3	1	3	3	6	6	Full
Pool-level adjustments (multiplicative factors)							
Geographic concentration	1.24	1.04	1.05	1.12	1.22	1.14	1.00
Mortgage operational assessment	1.00	1.00	1.00	1.05	1.05	1.05	1.00
Representations and warranties	1.10	1.10	1.10	1.10	1.10	1.10	1.00
Other (i.e. loan modification/PCE/due diligence)	1.01	1.02	1.03	1.01	1.00	1.01	1.00
COVID-19 forbearance adjustment	1.00	1.15	1.15	1.05	1.15	1.15	N/A
Combined pool-level adjustments(vii)	1.38	1.34	1.35	1.37	1.62	1.53	1.00
Loss estimation							
'AAA' loss coverage (%)	37.15	40.45	33.45	36.65	24.35	28.35	7.50
'AAA' foreclosure frequency (%)	66.61	73.54	67.29	74.55	45.84	54.31	15.00
'AAA' loss severity (%)	55.77	55.00	49.71	49.16	53.12	52.20	50.00
'BBB' loss coverage (%)	12.00	15.45	11.25	12.60	7.65	9.70	1.50
'BBB' foreclosure frequency (%)	37.86	42.98	40.04	44.60	24.96	30.66	5.00
'BBB' loss severity (%)	31.70	35.95	28.10	28.25	30.65	31.64	30.00
'B' loss coverage (%)	3.60	5.95	3.85	4.35	2.25	3.15	0.65
'B' foreclosure frequency (%)	16.56	20.21	20.06	22.42	10.57	13.74	3.25
'B' loss severity (%)	21.74	29.44	19.19	19.40	21.29	22.93	20.00

(i)As defined in our Feb. 22, 2018, criteria article and the associated guidance published on April 17, 2020, which contains our updated base-case-scenario related loss coverages, foreclosure frequencies, and loss severities. (ii)FICO reflects the most recent scores obtained. We assume 668 (one standard deviation from original pool average) for foreign borrowers who are missing FICO scores. (iii)Measured from the origination date. (iv)Limited to borrowers who have multiple mortgage loans included in the securitized pool. (v)Limited to modified and PCE loans considered in our analysis. (vi)Months of P&I advancing on a delinquent mortgage loan to the extent such advances are deemed recoverable. (vii)Combined pool-level adjustments are the product of each pool-level adjustment listed above. WA--Weighted average. CLTV--Combined loan-to-value ratio. DSCR--Debt service coverage ratio. PUD--Planned-unit development. IO--Interest-only. PCEs--Prior credit events. P&I--Principal and interest. N/A--Not applicable.

The loans in the pool have 30-year original terms to maturity, and the pool's weighted average seasoning is approximately seven months. Fully amortizing ARM loans make up 48.1% of the pool by balance, while fixed-rate mortgage (FRM) loans make up the remaining 51.9%. ARM interest-only loans represent 2.8% of the total pool.

The mortgage pool has a weighted average current combined loan-to-value (CLTV) ratio of 70.1%. The weighted average FICO score for the collateral pool is 716, which includes certain S&P Global

Ratings assumptions (see table 2 for a breakdown of the pool by borrower FICO score). In the pool, there are 25 loans to borrowers without a FICO score. We assessed these loans in our credit analysis using a FICO score of 668, which is approximately the mortgage pool's average original FICO score less one standard deviation. For the 87 loans to foreign borrowers (16.8% by pool balance), we applied a 1.5x multiple to the foreclosure frequencies.

Table 2

Updated Credit Score Statistics

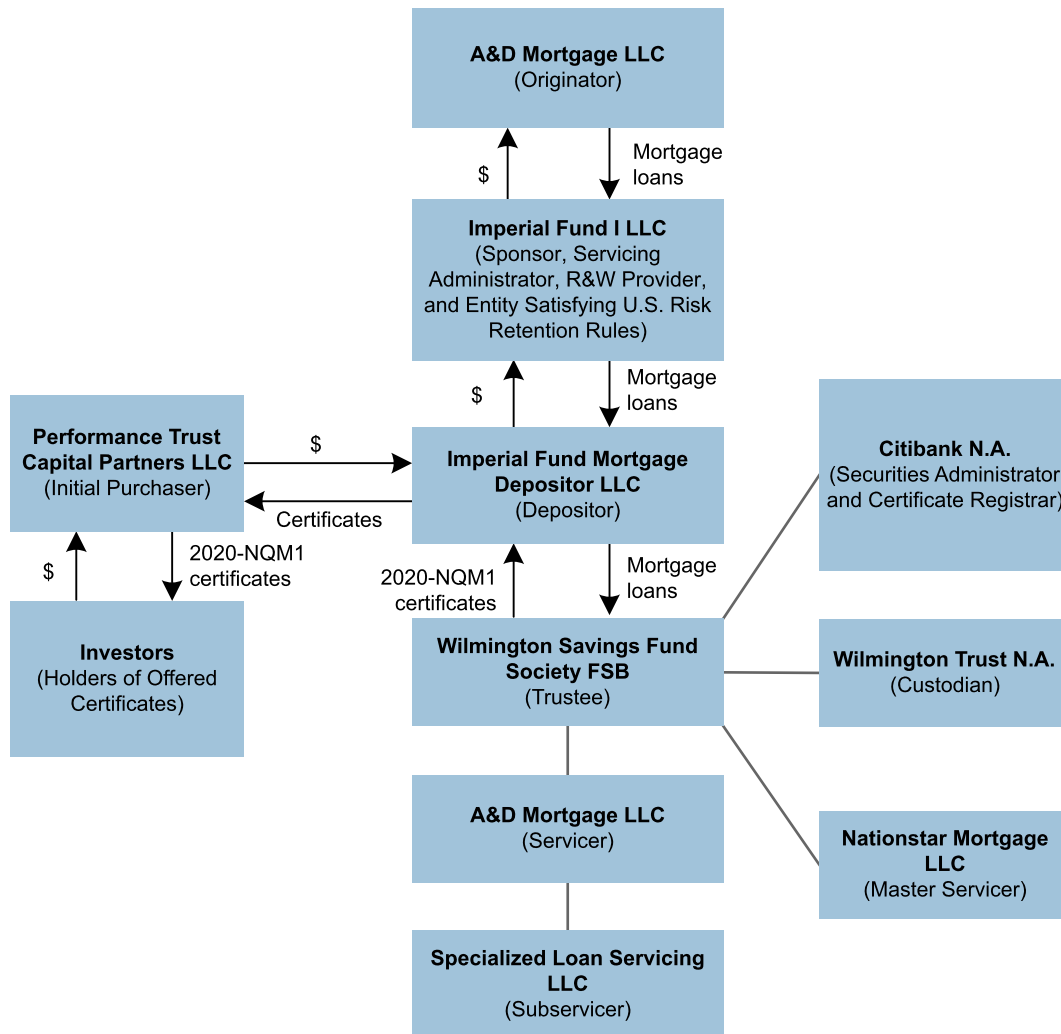
FICO score	Current balance (%)	No. of loans	Average current balance (000s \$)
750+	27.3	127	313,374
725-749	19.0	79	350,088
700-724	21.8	85	373,285
675-699	11.6	62	272,099
650-674	10.8	61	258,517
625-649	2.9	16	262,529
600-624	2.9	12	355,110
575-599	2.4	9	387,139
550-574	0.1	1	123,085
Below 550	1.1	5	334,053
Total	100.0	457	318,520

Mortgage loans backed by properties that are primary residences make up approximately 48.5% of the pool by balance. The mortgage loans in the pool are backed by single-family residences (40.6% by pool balance), condominiums (24.1%), planned-unit developments (21.4%), and two- to four-family homes (13.9%) (see table 1 above).

Transaction Structure

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

Transaction Structure



R&Ws--Representations and warranties.

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The transaction is structured as a true sale of the receivables from a statutory trust owned by the sponsor (Imperial Fund I LLC) to the depositor (Imperial Fund Mortgage Depositor LLC) and a pledge from the depositor to the issuing trust (IMPRL 2020-NQM1). The issuing trust will transfer the certificates to the depositor. The depositor will sell the offered certificates to the initial purchasers, who will sell them to third-party investors. The depositor will transfer the non-offered certificates as part of the consideration for the mortgage loans at the direction of the statutory trust seller. The sponsor, who owns the statutory trust seller, will direct it to have the depositor transfer some portion of the non-offered certificates to the sponsor and to hold the remaining portion to satisfy the risk retention rules.

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 IMPRL 2020-NQM1 transaction:

- The mortgage pool generally consists of loans to borrowers with considerable home equity, as demonstrated by the pool's weighted average original CLTV ratio of 70.7%.
- The third-party due diligence provider--AMC Diligence LLC (AMC), which is on our list of reviewed providers--performed due diligence on 100% of the loans in the pool with no material findings. Their review encompassed regulatory compliance, credit (underwriting) compliance, property valuations, and data quality.
- The class A-1, A-2, and A-3 certificates (the senior classes) benefit from a credit support floor in which no principal is paid to the mezzanine and subordinate classes until the senior classes 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.

We believe the following factors weaken the IMPRL 2020-NQM1 transaction:

- The pool is geographically concentrated in Florida (60.5%), with the next largest concentration in New York (13.4%); and the remainder is dispersed throughout 15 states. We applied an overall geographic concentration factor of 1.24x (which includes an adjustment of 1.10x in addition to our Herfindahl-Hirschman Index factor) to account for this risk.
- Loans to foreign/non-permanent resident borrowers represented 87 loans (16.8% by balance). We applied a 1.5x factor to the foreclosure frequencies for these loans. Additionally for the subset of borrowers missing FICO scores, we used a proxy FICO score of 668.
- Income on certain mortgage loans (52.4% by balance) was verified using alternative methods, such as personal or business bank statements, profit & loss statements or CPA letters. We consider income verification using alternative methods to be a weaker standard than "full" documentation of income. Consequently, we increased our loss coverages for these loans by applying an adjustment to the foreclosure frequencies. We applied an adjustment factor of 2.25x, 2.00x, and 1.75x to the foreclosure frequencies for loans using less than 12 months, 12-23 months, and at least 24 months of alternative income verification, respectively.
- Certain loans were underwritten to a cash flow investment property program (35.5% by balance) using debt service coverage ratios (DSCRs) ranging from 0.47 to 2.83. We applied an adjustment factor ranging from 3.15x to 6.00x to the foreclosure frequencies for these loans depending on the DSCR.
- Certain loans (31.9% by pool balance) were made to borrowers with current FICO scores below 700. The loss estimate of the mortgage pool has been calculated to account for the increased default risk of these loans.
- The majority of loans (51.1% by pool balance) were made to borrowers who are self-employed. Per our criteria, we applied a 1.10x factor to the foreclosure frequencies for these loans.
- Non-QM mortgage loans, which have an increased risk of ability-to-repay (ATR) challenges and associated losses, make up 49.1% of the pool by balance. We applied an adjustment to loss severities per our criteria to account for this risk.
- The loan purpose on 31.1% of loans by balance is cash-out refinance, with an average cash-out amount of approximately \$135,000; 33 loans have cash-out amounts greater than \$200,000.

- The sponsor makes the R&Ws. The R&W framework is weak because the testing of any breaches (other than any loans showing ATR-related realized losses, which are automatically reviewed) is at the option of the controlling holder (the majority owner of the class X certificates and, initially, the sponsor or an affiliate of the sponsor). In addition, the early payment default (EPD) covenant provided by the sponsor is weaker than what we see in jumbo prime transactions. Furthermore, the sponsor is an unrated entity and may be unable to fulfill repurchase obligations. Some of the risks and concerns with the framework are mitigated because third-party due diligence was performed on 100% of the loans, and the sponsor retains no less than 5.00% of the fair market value of all certificates. Consequently, we applied a R&W adjustment, which increased our loss expectations at all rating categories by a factor of 1.10x.

Credit Analysis And Assumptions

Our analysis of the IMPRL 2020-NQM1 collateral pool considered a number of factors, including certain loan-level characteristics. The details of our analysis are described below.

Documentation type

The sponsor guidelines allow income verification using paystubs, W-2s/W-2 equivalents, tax returns, written verifications of employment documenting income, CPA or third-party prepared P&L statements, and personal or business bank statements or a letter from a CPA or licensed tax preparer documenting income. The sponsor also offers asset depletion programs that consider borrower accumulated assets as a source of repayment to qualify the borrower, as well as cash flow investor programs under which loans are underwritten, in part, to a DSCR, which is calculated using actual or estimated rent (see table 3).

Table 3

Documentation Type (Income Verification Type/Length)

	Loan count (no.)	Current balance (%)	Alternative income verification length (WA no. of months)	Foreclosure frequency adjustment factors (x)	'AAA' foreclosure frequency without pool adjustment factors (%)
Full documentation					
Appendix Q/qualified mortgage	-	-	-	1.00	-
Full (24+ months)	31	8.39	-	1.00	33.48
Full (12-23 months)	5	2.26	-	1.25	24.56
Full (1-11 months)				1.50	
WVOE only	2	0.28	-	1.00-1.50	24.49
Alternative documentation					
24+ months (primary source)					
Business bank statements	50	12.79	24.0	1.75	41.70
Personal bank statements	16	2.54	24.0	1.75	50.65

Table 3

Documentation Type (Income Verification Type/Length) (cont.)

Personal or business bank statements(i)				1.75	
P&L statements(ii)	12	4.40	24.0	1.75	58.45
Additional alternative (CPA letter/FN)	45	7.54	24.0	1.75	67.18
12-23 months (primary source)					
Business bank statements	59	13.03	12.1	2.00	48.86
Personal bank statements	26	4.25	12.0	2.00	61.47
Personal or business bank statements(i)				2.00	
P&L statements(ii)	26	7.48	20.7	2.00	48.79
Additional alternative (CPA Letter/FN)	-	-	-	2.00	-
1-11 months (primary source)					
Business bank statements	-	-	-	2.25	-
Personal bank statements	-	-	-	2.25	-
P&L statements(ii)	2	0.42	10.3	2.25	100
Additional alternative (CPA Letter/FN)	-	-	-	2.25	-
Other documentation					
Other (DSCR)	180	35.45	-	3.15-6.00	71.91
Other (applied 0.00 DSCR)	-	-	-	6.00	-
Other (asset depletion)	3	1.18	-	3.00	32.75

(i)Where account type is not provided. (ii)The documentation source may include other secondary documentation types such as a CPA letter or supporting bank statements. WVOE--Written Verification of Employment/Employer Letter WA--Weighted average. P&L--Profit and loss. FN--Foreign National program.

For 38 loans (approximately 10.9% of the pool balance), traditional (full) documentation was used for fully verifying and calculating the borrowers' qualifying income (e.g., written verification of employment, pay stubs, W-2s, personal and business tax returns, and IRS transcripts). We applied a documentation type adjustment factor ranging from 1.00x to 1.50x, depending on the length of the income verification.

We classified all loans to borrowers that used income derived from bank statements (business or personal), profit & loss statements or CPA letters as alternative documentation loans. Alternative documentation, including CPA foreign income, was used on 236 mortgage loans (52.4% by pool balance), with the majority of borrowers using 24 months of bank statements. We view income verification using alternative documentation to be a weaker standard than full documentation of income and, consequently, increased our loss coverages for these loans by an adjustment factor ranging from 1.75x to 2.25x, depending on the length of income verification.

One hundred eighty loans in the pool (35.5% 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-6.00x adjustment to the foreclosure frequencies based on the provided DSCR that ranged from 0.47 to 2.83.

Three loans in the pool (1.2% by pool balance) were underwritten, in full or in part, using 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.

Prior credit event (PCE) classification and analysis

The borrowers on a portion of the mortgage loans have had one or more PCEs, such as bankruptcies or housing-related PCEs (foreclosures, short sales, deed-in-lieu of foreclosure, etc.) 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 foreclosure frequencies to account for this unique characteristic, focusing primarily on bankruptcy discharges or dismissals within 24 months prior to the cut-off date and housing-related PCEs within 36 months prior to the cut-off date. For loans to borrowers with more seasoned PCEs, we believe that the risks associated with those PCEs are reflected in the updated FICO scores.

We applied a pool-level PCE-related loss coverage adjustment factor of 1.01x, derived from a 2.50x factor for one loan (0.4% by pool 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. Loans that are exempt from the QM mortgage rule because they are listed as investment properties account for 50.9% of the pool; and, based on the designation provided by the sponsor, the remaining loans (49.1%) are non-QM/compliant (see table 4 for a QM breakout).

Table 4

Qualified Mortgage Breakout

QM status	Pool balance (\$)	% by pool balance	Loan count (no.)	Weighted average FICO
QM/non-HPML	0	0	0	N/A
QM/HPML	0	0	0	N/A
Non-QM/compliant	71,518,414	49.1%	191	713
Not covered/exempt	74,045,264	50.9%	266	719

QM--Qualified mortgage. HPML--Higher-priced mortgage loan.

Under the ATR rule, as more fully described in our criteria (see Appendix I of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018), the originator and any assignee are jointly and separately liable for certain damages that may be incurred from noncompliance with the rule. We applied our 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. In addition, as part of our originator review of A&D Mortgage, we concluded that the originator's processes address the ATR risks.

Servicer advancing obligations

The servicer advances delinquent principal and interest (P&I) payments on any delinquent mortgage loan (including any loan that may be delinquent due to COVID-19-related forbearance relief) until the earlier of the loan becoming greater than 90 days delinquent (limited P&I advancing/stop-advance loan) or the P&I advance is deemed unrecoverable. In the event that the servicer fails to advance P&I, the master servicer will make those advances and if the master servicer fails to do so, the securities administrator will make such advances.

Unlike P&I advances, the servicer must advance delinquent taxes and insurance (and other property preservation advances) until the related property is liquidated or the servicer deems the advance to be unrecoverable. We adjusted the loss severities to account for this limited advancing.

Borrowers with multiple loans

Sixteen borrowers (8.1% by pool balance) have more than one loan in the pool. The exposure to a single borrower does not exceed 2.16%, and the largest individual loan balance is 1.63%. As a result, we determined that no additional adjustments to the loss coverage or our tail risk analysis were needed for these loans.

Structural Features

Like other nonprime RMBS transactions, IMPRL 2020-NQM1 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 or 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 monthly excess cash flow to cover the current period's realized losses and to reimburse any previously applied realized loss amounts.

The securities administrator will make monthly interest distributions from the interest remittances and principal from the principal remittances (see tables 5-7).

The interest remittance amount includes:

- The interest collected from borrowers or advanced on their behalf (including interest payments that accompany prepayments, any compensating interest, and interest portions of liquidation

proceeds [net of expenses] and subsequent recoveries and repurchase amounts).

- Minus the aggregate servicing fees, master servicing fees, securities administrator fees, trustee fees, custodial fees, servicer advance reimbursements, 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 certificate holders, we ran these expenses at their capped amounts to stress excess spread 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.

Principal remittance amounts include:

- The principal collected from borrowers or advanced on their behalf (including prepayments, principal portions of liquidation proceeds [net of expenses], subsequent recoveries, and repurchase amounts).
- Minus fees, including extraordinary expenses (subject to the applicable caps) and servicer advance reimbursements that could not be paid from interest collections.

Table 5

Interest Payment Waterfall

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

(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 preliminary 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 the delinquency and cumulative loss trigger tests pass	
1	Unpaid interest and interest carryforward amounts sequentially to the class A-1, A-2, and A-3 certificates.
2	Principal pro rata to the class A-1, A-2, and A-3 certificates.
3	Unpaid interest and interest carryforward amounts to the class M-1 certificates.
4	Principal to the class M-1 certificates.
5	Unpaid interest and interest carryforward amounts to the class B-1 certificates.
6	Principal to the class B-1 certificates.
7	Unpaid interest and interest carryforward amounts to the class B-2 certificates.
8	Principal to the class B-2 certificates.
9	Unpaid interest and interest carryforward amounts to the class B-3 certificates.
10	Principal to the class B-3 certificates.
11	Any remaining amount paid as part of monthly excess cash flow.

Table 6

Principal Payment Waterfall (cont.)

Priority	Payment
If the delinquency or cumulative loss trigger tests fail	
1	Unpaid interest and interest carryforward amounts sequentially to the class A-1 and A-2 certificates.
2	Principal sequentially to the class A-1 and A-2 certificates.
3	Unpaid interest and interest carryforward amounts to the class A-3 certificates.
4	Principal to the class A-3 certificates.
5	Unpaid interest and interest carryforward amounts to the class M-1 certificates.
6	Principal to the class M-1 certificates.
7	Unpaid interest and interest carryforward amounts to the class B-1 certificates.
8	Principal to the class B-1 certificates.
9	Unpaid interest and interest carryforward amounts to the class B-2 certificates.
10	Principal to the class B-2 certificates.
11	Unpaid interest and interest carryforward amounts to the class B-3 certificates.
12	Principal to the class B-3 certificates.
13	Any remaining amount 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 certificate balances are reduced to zero.
2	Sequentially, up to the cumulative applied realized loss amount: First, sequentially to the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates, in that order, until their respective certificate balances are reduced to zero. Second, sequentially to the class A-1, A-2, A-3, M-1, B-1, B-2 and B-3 certificates, in that order, to reimburse the realized loss amounts previously allocated to them (to the extent the applicable class balance for each class of certificates has not been increased by prior applications of certificate reimbursement amounts).
3	To the cap carryover reserve account, from the monthly excess amount otherwise distributable to the class X certificates, the aggregate cap carryover amount(i) for classes A-1, A-2, A-3, M-1, and B-1 for that distribution date; and, from the cap carryover reserve account, any unpaid cap carryover amounts sequentially to the class A-1, A-2, A-3, M-1, and B-1 certificates.
4	Sequentially, amounts due to the class X certificates, then reimburse extraordinary trust expense amounts that exceed annual caps, pro rata, to the relevant transaction parties, and then any remaining amounts to the class R certificates.

(i) The cap carryover amount is the positive difference between the interest that would have accrued at the fixed coupon (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 interest at the fixed coupon. Our preliminary ratings do not address the payment of cap carryover amounts. PSA--Pooling and servicing agreement. WAC--Weighted average coupon.

Interest on classes A-1, A-2, A-3, M-1, and B-1 is based on the lower of the stated fixed coupon on the certificates and the net weighted average coupon (WAC) rate (defined as the mortgage interest rate net of fees and extraordinary expenses). In line with our criteria, our preliminary ratings address the lower of these two rates. Interest to classes B-2 and 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 carry-forward amounts) accrues at the lower of the coupon and net WAC rate for classes A-1, A-2, A-3, M-1, and B-1 and at the net WAC rate for classes B-2, and B-3. Our preliminary ratings address the receipt of all principal and interest payments (including interest carry-forward amounts) by the certificates' final maturity date.

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

In IMPRL 2020-NQM1, the mezzanine and subordinate certificates are paid principal sequentially after all senior certificates have been paid. 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 IMPRL 2020-NQM1 is not depleted because principal payments are not made to these classes unless they are the most senior class outstanding.

The transaction starts with a 38.80% enhancement for the senior-most class and a 19.15% enhancement for the senior classes (rated 'AAA' through 'A') as a group. This enhancement grows as a percentage of the current balance as the senior classes are paid down. 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. In addition to the cumulative loss trigger, the IMPRL 2020-NQM1 transaction features a delinquency trigger that protects the more-senior classes if delinquencies, which is a leading indicator of adverse pool performance, breach certain levels (see table 9).

Table 8

Cumulative Loss Trigger Event

Distribution date occurring in the following periods	The aggregate realized loss amounts since the cut-off date (as a % of the cut-off date pool balance) exceeds the following (%)
November 2020 through September 2023	2.00
October 2023 through September 2024	3.00
October 2024 through September 2025	6.00
October 2025 and thereafter	8.00

Table 9

Delinquency Trigger Event

Distribution date occurring in the following periods	The six-month average of 60+ day delinquent loans and loans modified (excluding deferred loans) in past 12 months (as a % of the current pool balance) exceeds the following (%)
November 2020 through September 2023	20.00
October 2023 through September 2025	25.00
October 2025 and thereafter	30.00

If the certificates' aggregate class balance 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 64.4% of the aggregate pool, with four out of the top five located in Florida and accounting for 53.2% of the pool. Overall, Florida accounts for 60.5% of the pool. Given our Herfindahl-Hirschman Index geographic adjustment factor is calibrated based on the distribution of loans in our historical mortgage data set, which reflects similar concentrations in California but not Florida, we applied an additional 1.1x adjustment factor to loss coverage over and above our Herfindahl-Hirschman Index adjustment factor for a total geographic adjustment factor of 1.24x to account for the elevated concentration in Florida. The Herfindahl-Hirschman Index is a concentration measure based on the sum of the squared CBSA concentrations related to a benchmark concentration.

Table 10

Geographic Concentration

CBSA code(i)	CBSA	State	% by balance
33124	Miami-Miami Beach-Kendall	Florida	30.92
35614	New York-Jersey City-White Plains	New York	11.17
22744	Fort Lauderdale-Pompano Beach-Sunrise	Florida	10.48
36740	Orlando-Kissimmee-Sanford	Florida	6.81
48424	West Palm Beach-Boca Raton-Boynton Beach	Florida	5.01
Top five CBSAs	--	--	64.4

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, certain transactions 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. IMPRL 2020-NQM1 does not explicitly provide a credit enhancement floor. However, due to the sequential payment mechanism to the mezzanine and the subordinate classes, which make up 19.15% of the capital structure, the 'AAA (sf)', 'AA (sf)', and 'A (sf)' preliminary rated classes effectively have a floor of 19.15% initially. Although over time, subordination can be depleted due to realized losses, the effective floor to the more-senior classes can increase when cumulative loss trigger, or delinquency trigger is violated which makes the payment priority fully sequential.

To analyze the appropriateness of subordination levels, we use an approach outlined in "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018. With 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 with the largest expected loss exposure, assuming default.

After considering the credit enhancement provided in the transaction and the certificates' expected paydown, we believe the rated certificates are sufficiently protected from tail risk as the transaction seasons.

Mortgage Operational Assessment Review

We conducted a mortgage operational assessment review (MOA) of the originator, A&D Mortgage, and assigned an overall AVERAGE ranking to A&D Mortgage after reviewing the company's origination process for non-QM residential mortgages. The ranking reflects our AVERAGE qualitative subranking and AVERAGE quantitative subranking.

Based on the results of our MOA, the loss coverage adjustment factor for A&D Mortgage is 1.00x. We applied this neutral adjustment factor to the collateral in this transaction when estimating the projected losses.

A&D Mortgage is an independent mortgage company founded in 2005 (initially as A&D Financial Corp. Inc. and rebranded to A&D Mortgage LLC in 2012) and headquartered in Hollywood, Fla. The company originates non-QM and conventional, conforming residential mortgage loans, adhering to the standards established by the government-sponsored enterprise Fannie Mae, as well as the government agency Federal Housing Authority (FHA). The company has a strong presence in Florida, and in 2012 started expanding its retail channel and initiated its wholesale business. A&D Mortgage is currently licensed to originate mortgage loans in 17 states, with licenses pending in three additional states. A&D Mortgage also originates in 25 states where licensing is not required for business purpose mortgage loans. The company has 150 employees.

A&D Mortgage primarily focuses on third-party originations (wholesale) and retail channels. In January 2019, the company added a small mini-correspondent business line that operates within its third-party origination channel. As of December 2019, A&D Mortgage's origination channels

consisted of 24.7% retail, 74.8% wholesale, and 0.5% mini-correspondent (this channel is not currently active).

Our overall AVERAGE ranking reflects our qualitative and quantitative review of A&D Mortgage. Our qualitative review focused on three primary areas regarding A&D Mortgage's loan residential production:

- Management and organization, including risk management and financial position;
- Origination process and underwriting, including the property valuation process; and
- Internal controls, encompassing third-party management, prefunding data quality, post-funding quality control (QC), and regulatory compliance.

For our quantitative analysis, we reviewed acquisition volume, loan characteristics, and loan performance history (including securitization performance), as well as delinquencies, early payment defaults, and repurchases.

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

The strengths include:

- An experienced senior management team averaging 19 years of industry experience;
- A long operational track record (the company has been originating non-QM loans since 2015, and nonprime and agency loans since 2005);
- Detailed policies and procedures;
- Non-delegated underwriting for its third-party origination channel;
- Extensive use of third-party tools to verify borrower and loan information;
- Use of multiple appraisal management companies;
- Comprehensive internal control processes, which includes robust pre- and post-funding QC and compliance functions;
- Use of an independent vendor for its post-funding reviews for at least 10% of originated loans (currently 100% of its non-QM production is reviewed post funding);
- Reviews of 100% of loan production prior to funding, which exceeds the industry average; however, there is no certainty that higher QC prefunding reviews will continue with further growth and expansion;
- An established internal auditing platform, which is managed by a third-party vendor and overseen by A&D Mortgage's senior management team; and
- Internal audit and pre- and post-funding QC reports with no material findings.

These strengths are partially offset by the following potential weaknesses:

- A&D Mortgage is 100% owned by its CEO, and there are corporate governance concerns related to the concentrated ownership structure. However, the company has a succession plan in place.
- There is no formal independent risk management function, but a senior-level cross-functional team oversees the company's risk and product development initiatives.
- Certain employees have limited tenure with the company (albeit with significant industry

experience) following the company's expansion through its product lines and national footprint.

- A&D Mortgage's loan production is highly concentrated in Florida. However, this may decrease as the company continues to acquire licenses to originate mortgage loans in several states. A&D Mortgage is currently licensed to originate in 17 states.

Our AVERAGE quantitative subranking is based on our review of historical loan performance data provided by A&D Mortgage and information from external sources. We compared the company's loan performance with those of other conforming, government, and non-QM residential mortgage loan originations from like vintages to inform our view.

We reviewed the loan performance of A&D Mortgage's 2017, 2018, and 2019 originations that were included in various non-QM securitizations as of March 2020, which showed the company's delinquencies were in line with those of its industry peers. However, we note that some of these transactions have not seasoned and therefore may not be reflective of ultimate performance.

We also reviewed the company's two-year FHA compare ratio for serious delinquencies. While A&D Mortgage's overall performance has been better than the U.S. average for the majority of the past 12 quarters (ended Dec. 31, 2019), it has certain periods of below-average FHA performance (although we note the FHA results may have been skewed by a small loan population).

Overall, A&D Mortgage's historical delinquencies, early payment defaults, and repurchases were in line with our expectations for post-crisis residential originations.

Third-Party Due Diligence Review

AMC performed third-party due diligence on 100% of the loans in the transaction. The scope of their review of the loans encompassed compliance, credit, valuation, and data integrity reviews.

Some loans fell within the scope of the TRID rule. For these loans, the third-party firms followed the Structured Finance Assn. (SFA) 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). 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).

Compliance with underwriting guidelines (credit review)

- Most of the due diligence firms' initial findings were resolved by the receipt of missing information in the trailing documents.
- One loan received a final credit review risk grade of 'C', and all other loans received a risk grade of 'A' or 'B'.
- Based on our review of the due diligence firm's findings, there is no adjustment to credit enhancement for credit due diligence.

Property valuation review

- All loans received a final property valuation review risk grade of 'A' or 'B'.
- Based on our review of the due diligence firm's findings, there is no adjustment to credit enhancement for valuation due diligence.

Regulatory compliance review

- Most of the due diligence firm's initial findings were resolved by the receipt of missing information in the trailing documents.
- No compliance grade C's were observed in the pool

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

R&Ws

Our review of the R&Ws for IMPRL 2020-NQM1 focused on whether the representations made by the R&W provider were substantially consistent with the set of representations in our criteria (see Appendix IV of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018). We also evaluated the strength of these R&Ws and considered whether any breach could have a materially adverse impact on the interests of the transaction's certificateholders. If the R&Ws in the transaction documents 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 their obligations in the event of a breach.

The sponsor acquired the loans primarily from an affiliated originator, A&D Mortgage (A&D). The R&Ws assigned to the trust related to the individual mortgage loans are made by the sponsor. R&Ws are provided in the mortgage loan sale agreement, term sheet, and private placement memorandum.

Framework

Upon review of the applicable transaction documents, we have found the R&Ws related to the individual mortgage loans are generally consistent with our published criteria. Knowledge qualifications are limited and moreover documents have provisions that notwithstanding the sponsor's lack of knowledge with respect to the substance of a knowledge qualified R&W, an inaccuracy on such a R&W will be deemed a breach. Certain R&Ws include carve-out language that the representation or covenant does not apply to any mortgage loan subject to a COVID-19 related forbearance plan which was not material to our analysis.

The R&Ws are made as of the closing date and are in effect throughout the transaction's life. There is no sunset provision that limits the time frame in which the representations are in effect. The sponsor is required to remedy a breach if it materially and adversely affects the value of the mortgage loans. However, TRID-related breaches must be remedied without consideration of materiality. The enforcement mechanism dictates that for loans that incur a realized loss, the controlling holder (i.e., the majority holder of the class X certificate, which is initially the sponsor or an affiliate of the sponsor) must review all potential breaches related to ATR defects. Loans with TRID violations, as determined by the courts, or defective documentation must be cured, repurchased, or substituted within 60 days of notice. The servicer will inform the controlling holder of potential violations related to ATR and TRID.

For all other loans that incur a realized loss, the controlling holder has the option to perform a review. For loans that are reviewed, the controlling holder has the option to use a third party to perform the review. If the controlling holder does not exercise the option to review, 25% or more of

the certificateholders (in aggregate) may choose to start a review. Relevant parties may commence a binding arbitration to resolve disputes.

Framework assessment

With the exception of TRID-related breaches, the R&Ws are subject to a "material and adverse effect" standard, which can be subjective. Except for loans that incur losses and have potential ATR defects, the R&W framework does not call for automatic breach reviews for loans that become severely delinquent or incur a realized loss; a mitigating factor is that 25% or more of the certificateholders may choose to commence a review. In addition, while the EPD covenant is generally consistent with those in other rated nonprime transactions, it is weaker than what is described as the standard in our criteria.

In our view, the R&W framework, although similar to those of other non-QM transactions, is weak because it lacks automatic reviews on severely delinquent loans and the use of an independent third party is not required. Furthermore, the sponsor is an unrated entity and may be unable to fulfill repurchase obligations. Therefore, we applied a 1.10x adjustment to our loss coverage estimates to reflect

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 for the cash flow assumptions for the relevant rating levels and table 12 for the preliminary ratings for each class consistent with our criteria, accounting for the available credit enhancement). We analyzed a variety of scenarios for each rating category, including combinations of:

- Front- and back-loaded default timing curves;
- Two-year recovery lag assumptions;
- Fast and slow prepayment assumptions;
- High, low, and forward interest rate curve assumptions; and
- Delinquency assumptions to stress liquidity for potential forbearance.

For further detail on our cash flow stresses, refer to our criteria "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018.

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
Foreclosure frequency (%)	66.61	59.43	48.42	37.86	26.98	16.56
Loss severity (%)	55.77	49.72	38.41	31.70	26.69	21.74
Loss coverage (%)	37.15	29.55	18.60	12.00	7.20	3.60
Scenario 1: delinquency curve	Standard delinquency curve for testing triggers without cash flow stress					
Scenario 2: delinquency curve	Delinquencies at 35% for the first six months to stress liquidity and triggers, followed by standard delinquency curve to test triggers					

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

Table 12

Structural Assessment

Class	Rating	Initial class size (%)	Initial credit enhancement (%)	Loss coverage (%)	Percentage point difference between credit enhancement and loss coverage
A-1	AAA(sf)	61.20	38.80	37.15	1.65
A-2	AA(sf)	7.00	31.80	29.55	2.25
A-3	A(sf)	12.65	19.15	18.60	0.55
M-1	BBB(sf)	6.05	13.10	12.00	1.10
B-1	BB(sf)	4.95	8.15	7.20	0.95
B-2	B(sf)	4.25	3.90	3.60	0.30
B-3	NR	3.90	0.00	N/A	N/A

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

Notwithstanding the use of excess interest as credit enhancement in the transaction structure, we applied our usual front- and back-loaded rather than bulleted (e.g., semiannual or annual lump sum) default timing curves in our analysis. This reflects our view of the potential volatility of cash flows, given that the newly originated loans are originated by a reviewed originator, subject to third-party due diligence, and include structural considerations such as a mix of pro rata and sequential principal allocations among all classes and limited P&I advancing by the servicer.

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 rating category specific stresses, the interest deferrals (or interest carry-forward 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 three 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 applied a delinquency stress curve to address the potential liquidity stress to cash flows due to loans entering forbearance in light of the COVID-19 pandemic and given the limited P&I advancing obligations from the servicer (until 90 days delinquent or unrecoverable). We assumed 35.00% of the closing pool balance is delinquent for the first six months, with any P&I payments related to this delinquent portion coming back to the transaction after all defaults have been passed through to the transaction (approximately 144 months).

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 96 bps over 10 years and 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 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 And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018, and the associated guidance "Guidance: Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published April 17, 2020, 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 the credit-related loss to the available credit support, we impute the interest owed to the certificateholders. WAC deterioration that occurs because of defaults, repurchases, or prepayments is not considered credit-related and, therefore,

was 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 50.00% 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 4.50% threshold. We stressed extraordinary trust expenses by the relevant extraordinary expense application factor over four years, from payment periods 13-60. 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, presents 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. According to 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 maximum potential rating 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. After assessing the severity, portability, and disruption risks for the servicer, we determined the ratings on these classes would not be affected.

According to our criteria, we rank severity and portability risk for nonprime residential mortgage collateral as moderate and low, respectively. For this transaction, the master servicer, Nationstar Mortgage LLC is the KTP. We consider the disruption risk for Nationstar Mortgage LLC as low. Given these risk assessments, our criteria does not cap the ratings on the transaction.

Our criteria "Methodology For Servicer Risk Assessment," published May 28, 2009, presents our methodology and assumptions for assessing additional operational risk related to servicers. A&D Mortgage is an approved seller and servicer with Fannie Mae. We consider the servicing of loans guaranteed by a government agency to represent a major part of its business. Nonetheless, in this transaction, A&D will use a subservicer (Specialized Loan Servicing LLC [SLS]) to service the loans. SLS, which is on the S&P Global Ratings Select Servicer List, will be the party responsible for remitting the collections to the master servicer.

Related Criteria

- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
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Related Research

- Select Servicer List, Sept. 25, 2020
- The U.S. Economy Reboots, With Obstacles Ahead, Sept. 24, 2020
- Can COVID-19 Cause A Cash Crunch For Certain U.S. RMBS, Aug. 21, 2020
- S&P Global Ratings Definitions, Aug. 7, 2020
- Non-Qualified Mortgage Loans Summertime Blues Continue Despite Improved July Delinquencies, July 29, 2020
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- S&P Global Ratings Is Assessing The Impact Of COVID-19 On Mortgage Market Outlooks For Global RMBS, April 17, 2020
- U.S. Residential Mortgage Input File Format For LEVELS, March 6, 2020
- Credit Rating Model: LEVELS Model For U.S. Residential Mortgage Loans, Aug. 5, 2019
- S&P Global Ratings Publishes List Of Third-Party Due Diligence Firms Reviewed For U.S. RMBS As Of Aug. 5, 2019, Aug. 5, 2019
- Servicer Evaluation: Specialized Loan Servicing LLC, July 25, 2019
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- Key Factors For Assessing U.S. Non-Qualified Mortgage Bank Statement Loans, April 10, 2019
- Credit Rating Model: Intex RMBS Cash Flow Model, April 7, 2017
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- 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

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