S&P Global
Ratings

Research

Presale:

MFA 2022-NQM3 Trust

September 9, 2022

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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(iv)	210,282,000	39.20
A-2	AA (sf)	Senior	Fixed(iv)	29,052,000	30.80
A-3	A (sf)	Senior	Fixed(iv)	37,526,000	19.95
M-1	BBB (sf)	Mezzanine	Net WAC	21,097,000	13.85
B-1	BB (sf)	Subordinate	Net WAC	16,947,000	8.95
B-2	B (sf)	Subordinate	Net WAC	13,316,000	5.10
B-3	NR	Subordinate	Net WAC(v)	17,638,865	0.00
A-IO-S	NR	Excess servicing	(vi)	Notional (vii)	N/A
XS	NR	Monthly excess cash flow	(viii)	Notional (vii)	N/A
R	NR	Residual	N/A	N/A	N/A

Note: This presale report is based on information as of Sept. 9, 2022. 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 received on Sept. 7, 2022. The preliminary ratings address the ultimate payment of interest and principal. They do not address payment of the cap carryover amounts. (ii)Interest can be deferred. Fixed coupons are subject to the pool's net WAC, and the interest rate on class M-1, class B-1, class B-2, and class B-3 equals the net WAC. (iii)This credit enhancement is solely from subordination, though excess spread also provides credit enhancement. (iv)Beginning on the distribution date in September 2026 and for each distribution date thereafter, the class A-1, A-2, and A-3 certificates will receive the sum of the fixed coupons and a step-up interest rate of 1.00% subject to the pool's net WAC rate. (v)At any distribution date on or after September 2026, amounts otherwise payable to B-3 as interest or interest carryforward can be used to pay class A-1, A2, and A-3 cap carryover (with such amounts not reimbursed to B-3 later).(vi)Excess servicing strip. (vii)The notional amount equals the loans' aggregate unpaid principal balance. (viii)Certain excess amounts from the pool's net WAC over classes with fixed coupons. WAC--Weighted average coupon. NR--Not rated. N/A--Not applicable.

Profile

Expected closing date	Sept. 16, 2022.
Cutoff date	July 31, 2022.
Distribution date	The 25th of each month, or the next business day, beginning in September 2022.
Stated maturity date	The distribution date in Sept. 2067.

Profile (cont.)

Certificates balance, including unrated classes	$345.86 million in aggregate.
Collateral type	First-lien, fixed- and adjustable-rate, fully amortizing, and interest-only residential mortgage loans primarily secured by single-family residences, planned unit developments, condominiums, condotels, two- to four-family homes, five-to-10-unit multi-family properties, mixed-use properties, and manufactured housing properties to both prime and nonprime borrowers. The pool has 607 loans, which are primarily non-qualified mortgage loans.
Credit enhancement	Each class of preliminary rated certificates has subordination in the form of certificates that are lower in payment priority, as well as excess spread that preserves subordination.

Participants

Issuer	MFA 2022-NQM3 Trust.
Sponsor and servicing administrator	MFA Financial Inc.
Depositor	MFRA NQM Depositor LLC.
Securities administrator and certificate registrar	Computershare Trust Co. N.A.
Servicer	Citadel Servicing Corp.
Servicer	Planet Home Lending LLC.
Servicer	Select Portfolio Servicing Inc.
Trustee	Wilmington Savings Fund Society FSB.
Custodian	Computershare Trust Co. N.A.
Loan data agent	DV01 Inc.

Originators

	By balance (%)	Due diligence (%)	Originator ranking
Citadel Servicing Corp. d/b/a Acra Lending	60.86	100.00	N/A
FundLoans Capital	24.61	100.00	N/A
Excelerate Capital	8.26	100.00	N/A
5th Street Capital	5.05	100.00	N/A
Five remaining originators	1.22	100.00	N/A

N/A--Not applicable. d/b/a--Doing business as.

Servicers

	By balance (%)	S&P Global Ratings' select servicer	Operation
Citadel Servicing Corp.	60.86	No	Primary servicer
Planet Home Lending LLC	31.18	Yes	Primary servicer
Select Portfolio Servicing Inc.	7.96	Yes	Primary Servicer

Rationale

The preliminary ratings assigned to MFA 2022-NQM3 Trust's mortgage pass-through certificates series 2022-NQM3 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 transaction's representation and warranty (R&W) framework;
- The mortgage aggregator and mortgage originators;
- The pool's geographic concentration; and
- The current and near-term macroeconomic conditions and the effect they may have on the performance of the mortgage borrowers in the pool. The potential impact current and near-term macroeconomic conditions may have on the performance of the mortgage borrowers in the pool. On April 17, 2020, we updated our mortgage outlook and corresponding archetypal foreclosure frequency levels (see "Guidance") to account for the potential impact of the COVID-19 pandemic on the overall credit quality of collateralized pools. While pandemic-related performance concerns have waned, given our current outlook for the U.S. economy considering the impact of the Russia-Ukraine military conflict, supply-chain disruptions, and rising inflation and interest rates (see "Economic Outlook U.S. Q2 2022: Spring Chills," published March 29, 2022), we continue to maintain our updated 'B' foreclosure frequency for the archetypal pool at 3.25%.

Environmental, Social, And Governance (ESG) Factors

Our rating analysis considers a transaction's potential exposure to ESG credit factors. For RMBS, we view the exposure to environmental credit factors as average, to social credit factors as above average, and to governance credit factors as below average (see "ESG Industry Report Card: Residential Mortgage-Backed Securities," published March 31, 2021). In our view, the transaction's exposure to social credit factors and environmental risks are in line with the sector benchmark, while its exposure to governance risks are higher than the benchmark.

For RMBS, we generally consider social credit factors as above average because housing is viewed as one of the most basic human needs, and conduct risk presents a direct social exposure for lenders and servicers because regulators are increasingly focused on ensuring fair treatment of borrowers. Social risk is generally factored into our base-case assumptions for RMBS transactions based on our consideration of the origination or aggregation platforms, the R&W framework, and the third-party due diligence that informs our view of credit underwriting and compliance with applicable consumer protections.

With respect to environmental factors, the subject transaction's exposure to environmental credit factors is in-line with our sector benchmark. The transaction has a geographically well-diversified portfolio, which reduces exposure to extreme weather events, in our view.

The transaction's governance risk exposure is higher than our benchmark due to certain limits related to the aggregator, loan performance history, and R&Ws. In our view, certain other features also provide mitigants to the transaction's governance risk exposures including that all of the loans in the pool were subject to a third-party due diligence review (see the Third-Party Due

Diligence section for more detail).

By applying certain R&Ws, geographic concentration pool-level adjustment factors, and a mortgage operational assessment (MOA) to the transaction, we have accounted for risk related to ESG credit factors.

Overview

MFA 2022-NQM3 is the eigth transaction under MFA Financial Inc.'s (MFA) non-qualified mortgage (non-QM) shelf that is rated by S&P Global Ratings.

Noteworthy Features

Step-up interest rate on class A-1, A-2, and A-3

In this transaction, on each distribution date beginning in September 2026, the class A-1, A-2, and A-3 certificates will receive the sum of the applicable fixed coupon and a step-up interest rate of 1.00%, subject to the pool's net weighted average coupon (WAC). We think this step-up feature may motivate the depositor to exercise their option to clean up the transaction. An optional redemption can occur at the earlier of three years after the closing date or when the loans' aggregate stated principal balance is less than or equal to 30.00% of the loans' aggregate stated principal balance as of the cutoff date.

Class B-3 interest and principal used to cover potential cap carryover amounts of classes A-1, A-2, and A-3

The transaction documents allow for reallocation of the interest (including interest carryforward amounts) otherwise payable to the unrated class B-3 certificates to first pay the cap-carryover amounts due on the class A-1, A-2, and A-3 certificates. The B-3 interest thus diverted will not be paid back to the class B-3 certificates. Although this feature increases the chances of paying cap carryover amounts to the class A-1, A-2, and A-3 certificates at the cost of reducing the payments to the class B-3 certificates, this did not have an impact on our analysis because the class B-3 certificates are unrated, and the assigned preliminary ratings on the rated certificates address the ultimate payment of interest (including interest carryforward amounts) and principal and do not address the payment of any cap carryover amounts.

Low aggregate servicing fees

We believe the aggregate servicing fee rate of approximately 35 basis points (bps) provided in the transaction documents is relatively low for non-QM loans and, in our view, might not be adequate to attract quality servicers should the servicing function need to be transferred. In situations where the successive servicer charges a higher fee than 35 bps, it will reduce the funds available to distribute to the certificates (i.e. reduce the excess spread that acts as soft credit enhancement). We believe a servicing fee rate of 50 bps would be sufficient to allow a successful transfer if necessary. Additionally, Planet Home Lending LLC (Planet Home) and Select Portfolio Servicing Inc.'s (SPS) underlying servicing fee framework has a per loan base fee with additional loan servicing incentives which could increase their respective aggregates servicing fee to be higher than the 35 bps. As such, we reviewed the servicing fee framework and concluded that by using a 50 bps aggregate servicing fee, we have captured the potential risk arising out of using a fixed fee schedule(subject to certain floors) on a portion of the pool.

High-balance loans

Of the loans in the pool, 30 (4.94% by loan count) have balances equal to or greater than $1.5 million. Together, these loans make up 24.80% of the pool balance. From a FICO and loan-to-value (LTV) perspective, these loans have a better credit profile than the overall pool. These loans have a weighted average used LTV of 64.21% and a weighted average used FICO of 716 as compared to the overall pool, which has weighted average used LTV of 68.34% and weighted average used FICO of 708. As a result, our loss coverage estimates for the high-balance loans is 17.06% at the 'AAA' rating level, as compared to 28.49% 'AAA' loss coverage (without any additional pool-level factors) for the overall pool. We also applied our large loan balance analysis per our criteria (as further described in the Large Loan And Tail Risk Considerations section) and concluded no additional loss coverage adjustment was needed to account for the potential risk posed by large loans.

High concentration of alternative/other documentation loans

The MFA 2022-NQM3 transaction includes 234 alternative documentation loans (49.00% by pool balance) for which income was verified using bank statements, certified public accountant (CPA) letters, or profit and loss (P&L) statements. The pool also has 305 "other" documentation type loans (37.79% by pool balance) that were underwritten either to an investment property business purpose program, which includes 290 debt service coverage ratio (DSCR) loans and nine non-DSCR, no-ratio loans, or qualified using asset depletion/utilization (six loans). In total, these two categories make up 86.79% of the pool by balance.

Servicers are not required to make principal and interest advances on any delinquent mortgage loan serviced

In most nonprime RMBS transactions, servicers are typically contractually obligated to advance delinquent principal and interest (P&I) payments on the mortgage loans for up to 180 days or until the P&I advances are deemed non-recoverable, at which time there is no further obligation to advance. By contrast, in this transaction, Citadel Servicing Corp. (Citadel), Planet Home, and SPS, servicing 60.86%, 31.18%, and 7.96% of the loans in the pool, respectively, will not be required to make any P&I advances on the mortgage loans, and no other transaction participant will have the obligation to make any P&I advances for any mortgage loan. To account for the lack of advancing, in accordance with our criteria, we stressed liquidity to account for delinquent and defaulted loans in our cash flow analysis. The servicers are required to advance taxes and insurance on delinquent mortgage loans to preserve the trust's interest in the related properties.

Servicers will not make compensating interest payments

In RMBS transactions, servicers usually pay a portion of their servicing fee to compensate the trust investors for interest shortfalls arising out of prepayments. In this transaction, no such feature exists for any mortgage loan serviced by Citadel, Planet Home, or SPS. This could potentially reduce the amount of cash that could otherwise be available to make payments to the bondholders. However, this did not affect our analysis because these non-credit-related potential interest shortfalls are outside the scope of our analysis. Additionally, we note that excess spread would be available to cover any prepayment interest shortfalls that may otherwise arise.

No master servicer

There is no master servicer in the transaction. The servicing administrator, who is also the sponsor, has oversight over the servicers and is responsible for replacing the servicers with a successor servicer that is acceptable to the trustee, as necessary. The servicers cannot resign or be removed until a successor servicer has assumed the servicer's responsibilities and obligations under the pooling and servicing agreement (PSA). The servicing administrator cannot resign until a successor servicing administrator has been appointed by the depositor and has assumed the servicing administrator's rights, responsibilities, liabilities, and duties under the PSA.

Excess spread compression

The fixed-rate bond coupons are relatively high compared to the net weighted average coupon (WAC) of the pool, resulting in relatively low excess spread in this transaction. To offset this reduction in soft credit enhancement, the transaction has relatively higher levels of hard credit support. In addition, this compressed excess spread may also mean that there are more chances of having cap-carryover amounts incurred and ultimately not paid to the applicable classes in this transaction as compared to transactions that have higher spread. However, this did not affect the assigned preliminary ratings, as our ratings do not address the payment of cap carryover amounts.

Collateral Summary

MFA 2022-NQM3's assets consist primarily of fixed- and adjustable-rate, interest-only (IO) non-QM and ATR exempt loans secured by first liens. The mortgage pool consists of 607 mortgage loans, with a principal balance of approximately $345.86 million as of the cutoff date.

The collateral pool is weaker than the S&P Global Ratings' archetypal prime pool from a credit perspective, but it is generally in line with our expectations for a nonprime residential mortgage pool.

The pool's 'AAA' loss coverage requirement was determined to be 34.25%. In our analysis, we consider the following mortgage loan characteristics to be weaker:

- A significant number of non-QM loans;
- Alternative income documentation on certain loans;
- Business purposes loans with and without DSCRs;
- Loans to foreign borrowers (including foreign national and non-permanent resident alien borrowers);
- Loan type (adjustable-rate mortgage loans, IO features);
- Loan purpose (cash-out refinance loans);
- Property types (condominiums, two- to four-family homes, five-to-10 unit multi-family, mix-use, manufactured homes, and condotels); and
- Self-employed borrowers for certain loans.

The mortgage loans consist of fixed-rate (79.32% by pool balance), which are primarily 30-year or 40-year original term to maturity, and three-, five-, and seven-year term hybrid adjustable-rate

(20.68%), fully amortizing mortgage loans. The mortgage pool includes 21.13% IO loans. The weighted average seasoning for the pool is approximately eight months.

The collateral pool's weighted average current combined loan-to-value (CLTV) ratio is 68.57%. The pool's weighted average updated FICO score is 708, which includes certain S&P Global Ratings assumptions (see table 1 for a breakdown of the pool by the borrowers' FICO score). The pool includes 68 loans to foreign borrowers (either borrower or co-borrower, 7.13% by pool balance), of which 52 loans are without a FICO score. For these loans, we used a FICO score of 660--approximately the pool's average original FICO score minus one standard deviation. We applied a 1.50x multiple to the foreclosure frequencies to all 68 loans to foreign borrowers (see chart 1).

Mortgage loans backed by properties that are primary residences make up approximately 59.16% of the pool by balance. The mortgage loans are secured by first liens on single-family residences (50.47% by pool balance), planned unit developments (PUDs; 28.70%), condominiums (10.24%), two- to four-family homes (6.12%), and "other" type properties (4.47%) (see table 2). The other property types include five-to-10 unit multi-family properties, mix-use properties, manufactured homes and condotels for which we assumed 100% loss severity at all rating levels.

Table 1

Updated Credit Score Statistics

FICO score	Current balance (%)	No. of loans	Avg. current balance ($000s)
>=750	26.82	154	602.30
725-749	13.51	75	622.80
700-724	13.15	85	535.30
675-699	16.10	79	704.80
650-674	17.96	125	496.90
625-649	5.66	34	575.60
600-624	3.68	27	470.80
575-599	1.25	11	392.50
550-574	0.69	6	397.70
<550	1.19	11	374.10
Total	100.00	607	569.80

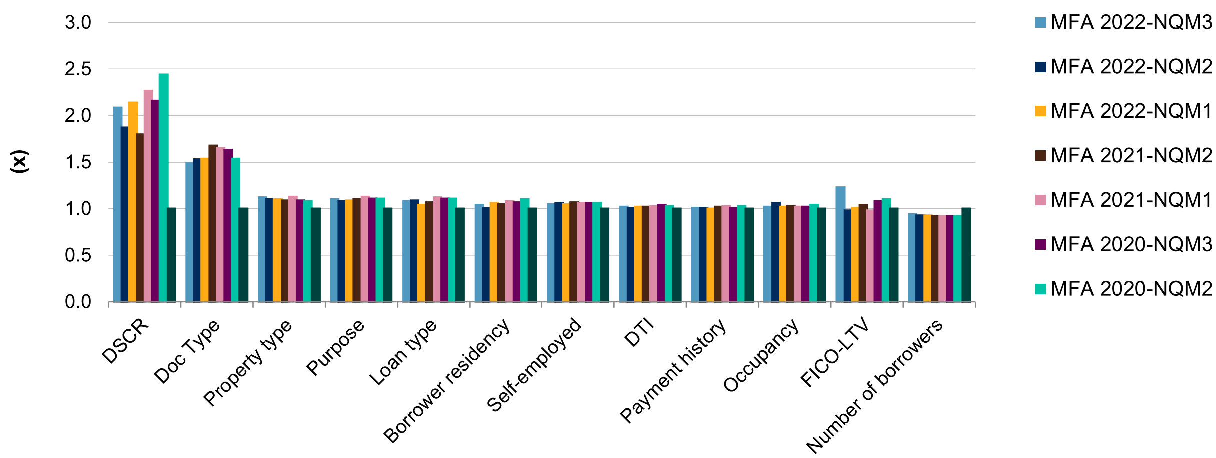
The weighted average seasoning of the loans in the pool is approximately eight months. Approximately 15.00% of the pool is seasoned more than 24 months, with an average seasoning of approximately 40 months.

In this transaction, we received updated valuations, including broker price opinions (BPOs) and automated valuation models (AVMs) for the seasoned loan population. We compared the updated valuations with the Federal Housing Finance Agency (FHFA) house price index-adjusted original valuations and found them to be generally in line.

After reviewing the updated property valuations for the entire pool, we used the BPOs, where provided, to calculate the current CLTV of the related loans. For the loans where we received an AVM, we used the FHFA house price index-adjusted original valuation to calculate the current CLTV.

Chart 1

Foreclosure Frequency Adjustment Factor Breakout



DSCR--Debt service coverage ratio. LTV--Loan to value. DTI--Debt to income.

Table 2

Collateral Characteristics

	MFA 2022-NQM3	MFA 2022-NQM2	MFA 2022-NQM1	MFA 2021-NQM2	MFA 2021-NQM1	Archetypal pool(i)
Closing pool balance (mil. $)	345.9	540.7	332.8	289.3	394.2	N/A
Closing loan count (no.)	607	709	701	678	910 (ii)	N/A
Avg. loan balance ($)	569,784	762,562	474,761	426,666	433,164	N/A
WA original CLTV (%)	69.2	69.3	65.9	65.4	64.3	75.0
WA current CLTV (%)	68.6	68.8	65.1	64.5	62.9	75.0
WA FICO (iii)	708	738	720	711	713	725
WA current rate (%)	6.0	4.4	4.9	5.6	5.9	N/A
WA original term (mos.)	376	383	356	361	362	360
WA seasoning (mos.)	8	6	8	12	15	0-6
WA debt-to-income (%)	33.4	31.9	33.5	33.2	35.3	36
WA DSCR (non-zero)	1.17	1.20	1.12	1.14	1.21	N/A
Owner occupied (%)	59.2	59.2	58.9	69.9	64.7	100
Single-family (including unattached and attached PUD) (%)	79.2	83.6	82.5	83.0	78.9	100
Adjustable-rate loans (%)	20.7	11.5	14.3	35.0	60.5	0.0
Loans with IO payments (%)	21.1	28.5	9.1	11.2	14.4	0.0
Purchase (%)	53.5	52.6	49.8	49.2	39.4	100
Cash-out refinancing (%)	39.7	31.2	37.4	41.7	53.1	0.0

Table 2

Collateral Characteristics (cont.)

	MFA 2022-NQM3	MFA 2022-NQM2	MFA 2022-NQM1	MFA 2021-NQM2	MFA 2021-NQM1	Archetypal pool(i)
Full documentation (%)	13.2	17.4	9.9	12.1	8.8	100
Alternative/Bank statement/P&L statement documentation (%)	49.0	50.6	53.1	62.2	58.3	0
Other/asset depletion/DSCR documentation (%)	37.8	32.0	37.0	25.7	32.9	0.0
Investor Property %	39.1	38.9	37.3	26.4	31.1	
Self-employed borrowers (%)(iv)	55.9	62.2	57.7	74.3	77.7	0.0
Loans with coborrowers (%)	25.9	27.7	29.7	32.6	30.7	0.0
Loans to borrowers with multiple mortgages (%)(v)	6.1	11.7	6.7	2.6	0.3	N/A
Loans to foreign borrowers (%)(foreign national and non-permanent resident aliens)	7.1	2.7	11.8	10.6	15.8	0.0
Modified loans (%)(vi)	0.0	0.0	0.0	0.0	0.0	0.0
PCEs (%)(vi)	0.6	0.0	0.1	0.7	1.4	0.0
Current (%)	100	100	100	100	100.0	100
30+ day delinquent (%)	0.0	0.0	0.0	0.0	0.0	0.0
Length of P&I advancing (mos.)(viii)	0(ix)	0(ix)	0(ix)	0(ix)	0(ix)	Full
Pool-level adjustments (multiplicative factors)						
Geographic concentration	1.03	1.09	1.02	1.02	1.05	1.00
Mortgage operational assessment	1.05	1.05	1.05	1.05	1.05	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)	1.01	1.00	1.00	1.01	1.02	1.00
Loans in forbearance/deferred payments related to COVID-19	1.00	1.00	1.03	1.10	1.15	
Combined pool-level adjustments(x)	1.20	1.26	1.21	1.31	1.42	1.00
Loss estimation						
'AAA' loss coverage (%)	34.25	27.05	26.20	23.70	28.50	7.50
'AAA' foreclosure frequency (%)	59.37	48.29	50.75	50.37	61.35	15.00
'AAA' loss severity (%)	57.69	56.02	51.63	47.05	46.45	50.00
'BBB' loss coverage (%)	11.80	8.55	9.10	8.20	10.10	1.92

Table 2

Collateral Characteristics (cont.)

	MFA 2022-NQM3	MFA 2022-NQM2	MFA 2022-NQM1	MFA 2021-NQM2	MFA 2021-NQM1	Archetypal pool(i)
'BBB' foreclosure frequency (%)	33.84	26.64	28.78	29.56	37.55	6.41
'BBB' loss severity (%)	34.87	32.09	31.62	27.74	26.90	30.00
'B' loss coverage (%)	4.00	2.55	3.15	3.00	4.10	0.65
'B' foreclosure frequency (%)	15.10	11.23	13.10	14.82	20.47	3.25
'B' loss severity (%)	26.49	22.71	24.05	20.24	20.03	20.00

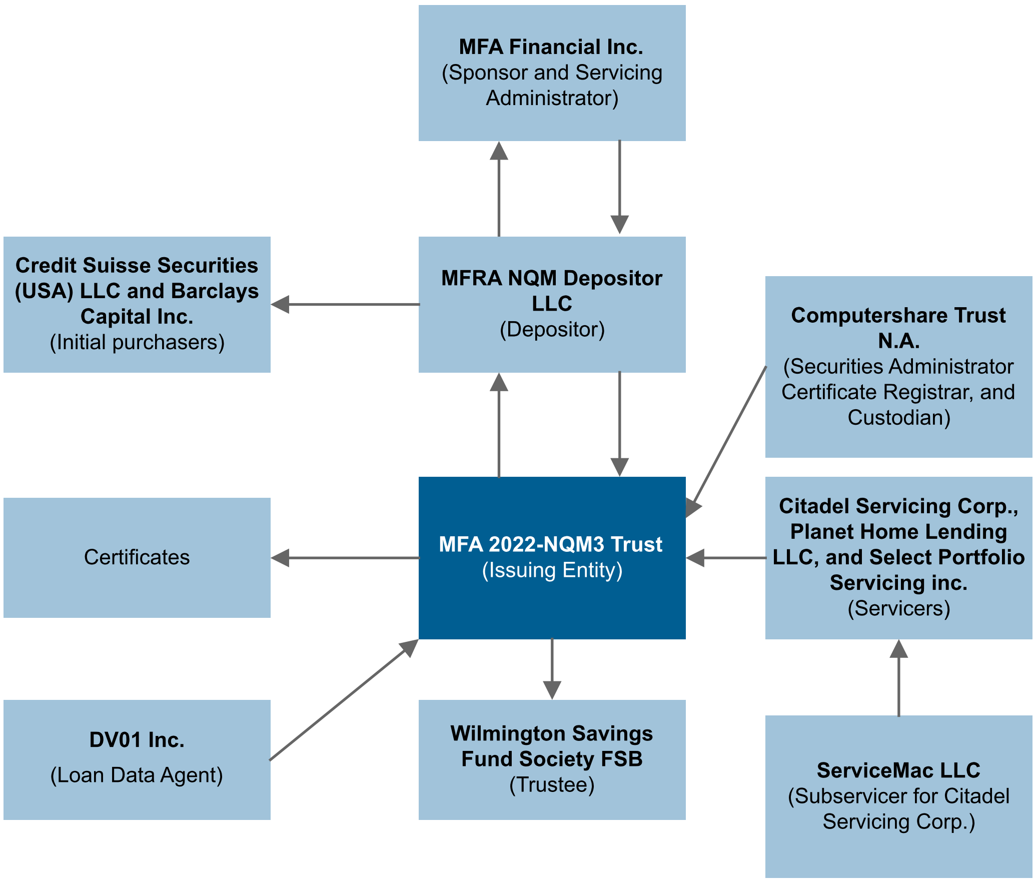
(i)As defined in our Feb. 22, 2018, criteria article. (ii)For MFA 2021-NQM1, 910 loans secured by 917 properties. (iii)The WA FICO reflects the most recent scores obtained and assumed the lower of primary and co-borrower scores. For MFA 2022-NQM3, we assumed 660 for foreign borrowers who are missing FICO scores. (iv)Where either the borrower or coborrower is self-employed. (v)Limited to borrowers who have multiple mortgage loans or properties included in the securitized pool. (vi)Limited to modified and PCE loans considered in our analysis. (vii)Loans in forbearance are treated as current and included in the above the model forbearance adjustment. (viii)Months of P&I advancing on a delinquent mortgage loan to the extent those advances are deemed recoverable. (ix) Servicer(s) will not be required to make any P&I advances on the mortgage loans it services. (x)The 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.

Transaction Structure

Chart 2 shows an overview of the transaction's structure.

Chart 2

Transaction Structure



The transaction is structured as a true sale of the assets from the mortgage loan sponsor, MFA, to the depositor, MFRA NQM Depositor LLC, and a sale from the depositor to the issuing trust, MFA 2022-NQM3 Trust. The issuing trust transfers the certificates to the depositor. The depositor sells the offered certificates to the initial purchasers, which will sell them to third-party investors. The depositor will sell the non-offered certificates and the certificates required to be held to satisfy the risk retention rules to the sponsor or a majority-owned affiliate, or it will retain those certificates for its own account.

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 MFA 2022-NQM3 transaction:

- The mortgage pool generally consists of loans to borrowers with significant home equity, as demonstrated by the pool's weighted average original CLTV ratio of 69.23%.

- The third-party due diligence providers (Infinity International Processing Services Inc. [Infinity], Canopy Financial Technology Partners LLC [Canopy], Clayton Services LLC [Clayton], SitusAMC [AMC], and Evolve Mortgage Services LLC [Evolve], which are on our list of reviewed providers) performed due diligence on 100% of the pool's loans. Their review encompassed regulatory compliance (as applicable), credit (underwriting) compliance, property valuations, and data quality.
- The senior class A-1, A-2, and A-3 certificates benefit from a credit support floor in which no principal is paid to the subordinate classes until the class A certificates are retired. Additionally, principal is paid sequentially among the senior classes in periods when the cumulative loss trigger or delinquency trigger has failed, further protecting the more senior classes.

We believe the following factors weaken the MFA 2022-NQM3 transaction:

- Income on certain mortgage loans (49.00% by pool balance) were verified using "alternative" methods (e.g., bank statements). Of this population of loans, 3.61% by pool balance were analyzed using less than 12 bank statements. We view income verification using "alternative" documentation to be weaker than "full" documentation and increased our loss coverages for these loans by applying an adjustment to the foreclosure frequencies. We applied an adjustment factor generally ranging from 1.75x to 2.25x to the foreclosure frequencies, depending on the length and type of income verification.
- The transaction includes 293 loans (46.52% by pool balance) that were made to borrowers with FICO scores below 700. (This includes 52 loans that did not have FICO scores and were assigned a score of 660.) The mortgage pool's loss estimate was increased to account for the loans' higher default risk.
- The transaction includes 68 loans (7.13% by pool balance) that were made to non-permanent resident aliens or foreign national borrowers or co-borrowers. We applied a 1.50x factor to the foreclosure frequencies for the loans. These loans include 52 loans (5.12% by pool balance) that do not have FICO scores. We assumed a FICO score of 660 for these loans in our analysis.
- The transaction includes nine ATR-exempt loans (1.47% by pool balance) that primarily used LTV ratios to underwrite the loan (rather than DSCR). We applied a 6.00x adjustment to the foreclosure frequencies for these loans.
- The transaction includes 290 property-focused investor loans that were underwritten to an investment property business purpose program (34.24% by pool balance) using DSCRs ranging from 0.46 to 3.80. Depending on the DSCR calculation, we applied an adjustment factor ranging from 3.15x to 6.00x to the foreclosure frequencies for these loans.
- Non-QM loans, which have an increased risk of ATR challenges and associated loan losses, comprise 60.56% of the pool. We applied an adjustment to the loss severities per our criteria to account for this risk.
- MFA, the sponsor, is providing the R&Ws for all the loans in this transaction. We consider the R&W framework to be weak because the testing for any breaches (other than ATR-notice loans that suffer a realized loss) is at the controlling holder's (the majority owner or owners--if there is no single majority owner for class XS--and, initially, the depositor) option. Third-party due diligence on 100% of the loans, along with the alignment of interest between certificateholders and MFA, which holds, indirectly through the depositor, the first-loss pieces (classes B-2, B-3, and XS) and retains risk via a 4.97% horizontal slice of the capital structure, somewhat mitigates the weaknesses of the framework. Consequently, we applied an R&W factor of 1.10x, which increased our loss expectations for all rating categories by 10.00%.

Credit Analysis And Assumptions

Our analysis of the MFA 2022-NQM3 collateral pool considers a number of factors, including certain loan-level characteristics. The details of our analysis are described below.

Documentation type

The originators' guidelines allow income verification using paystubs, W-2s, written verifications of employment (WVOEs), tax returns, bank statements, and CPA letters.

The originators also consider asset depletion/utilization as borrower income that can be used to qualify for monthly payments or loan repayment. In addition, the pool includes business-purpose investment property loans underwritten to either the properties' DSCR, with consideration of the FICO scores and LTV ratios and/or underwritten to FICO scores and LTV ratios without consideration of a DSCR. Furthermore, certain loans in the pool were underwritten to a foreign national ATR-exempt program for an investment property, which primarily considered LTV ratios and verified assets. Higher adjustment factors were applied to account for the risk of these alternative/other documentation types (relative to fully documented loans) on foreclosure frequency as described further below.

Table 3

Documentation Type (Income Verification Type/Length)

	Loan count (no.)	Current balance (%)	Alternative Income Verification Length (WA # of months)	Foreclosure frequency adjustment factors (x)	AAA Foreclosure frequency without pool adjustment factors (%)
Full Documentation					
Appendix Q/qualified mortgage					
Full (24+ months)	54	10.15		1.00	29.7
Full (24+ months) WVOE only	4	0.72		1.00	47.1
Full (12-23 months)	7	0.98		1.25	61.6
Full (12-23 months) WVOE only	2	1.33		1.25	19.9
Full (1-11 months)	1	0.03		1.50	30.8
Full (1-11 months) WVOE only					
Alternative Documentation (i)					
24+ months					
Business bank statements	22	7.89	24.0	1.75	45.3
Personal bank statements	7	1.49	24.3	1.75	35.8
Personal and business bank statements					
P&L statements	5	0.76	24.0	1.75	68.2
12-23 months					
Business bank statements	130	26.17	12.0	2.00	49.9

Table 3

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

	Loan count (no.)	Current balance (%)	Alternative Income Verification Length (WA # of months)	Foreclosure frequency adjustment factors (x)	AAA Foreclosure frequency without pool adjustment factors (%)
Personal bank statements	56	8.55	12.0	2.00	52.7
Personal and business bank statements					
P&L statements	2	0.53	12.0	2.00	67.8
1-11 months					
Business bank statements	3	0.82	3.0	2.25	12.5
Personal bank statements	9	2.79	1.3	2.25	23.8
Personal and business bank statements					
P&L statements					
Other Documentation					
Other (DSCR)	290	34.24		3.15-6.00	69.0
Other (zero DSCR/no ratio)	9	1.47		6.00	93.6
Other (asset underwriting/depletion)	6	2.08		3.00-4.00	77.1

(i)The documentation source may include other secondary documentation types. WA--Weighted average.

For 68 loans, approximately 13.21% of the pool balance, traditional (full) documentation was used for fully verifying and calculating the borrowers' qualifying income (e.g., WVOE, pay stubs, W-2s, personal and business tax returns, award letters 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) or CPA letters as alternative documentation loans. Alternative documentation was used on 234 mortgage loans (49.00% by pool balance), with the number of months of statements ranging from one month to 24 months or more. Of the 234 loans, 12 (3.61% by pool balance) used less than 12 months of alternative documentation. We view income verification using alternate documentation to be a weaker standard than full documentation of income. As a result, we increased our loss coverages for these loans by an adjustment factor ranging from 1.75x to 2.25x.

Six loans in the pool (2.08% by pool balance) were underwritten to a lending program that considers accumulated assets (asset depletion/utilization) rather than a verified income stream. We classified these loans as "other" documentation loans and applied a 4.00x adjustment factor to the foreclosure frequencies for these loans as we viewed the asset utilization programs as somewhat weaker than the ones used by other sellers considering features such as types of eligible assets allowed, amount of assets required, haircuts to eligible asset types, and consideration of other borrower debts in the underwriting.

Of the loans in the pool, 290 (34.24% by pool balance) were underwritten to a lending program that considers investment property cash flow. We classified these loans as other documentation loans with a DSCR flag and applied a 3.15x-6.00x adjustment factor to the foreclosure frequencies based on the provided DSCR calculation. Six (0.57% by balance) of these DSCR loans were originated by a CDFI. The DSCR calculations provided by the issuer for the DSCR loan population ranged from 0.46 to 3.80.

Nine investment property loans (1.47% by pool balance) were primarily underwritten to FICO scores and LTV ratios (rather than DSCR). We classified these loans as "other" documentation loans. We evaluated these non-DSCR loans as if they were DSCR loans with a DSCR of zero; our loss model applied a 6.00x adjustment factor to the foreclosure frequency for these non-DSCR loans.

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. Based on the designation provided by the sponsor, about 60.56% (by pool balance) are categorized as non-QM/compliant. The remaining loans (39.44% by pool balance) were exempt from the QM/ATR rule because they are secured by investment properties, are extended to foreign national borrowers, or meet certain business purpose requirements (see table 4 for a QM breakout).

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.

Table 4

Qualified Mortgage Breakout

QM status	Pool balance ($)	% by pool balance	Loan count (no.)
QM/non-HPML	--	--	--
QM/HPML	--	--	--
Non-QM/compliant	209,435,159.56	60.56	286
Not covered/exempt	136,423,705.94	39.44	321

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

All six CDFI loans in the pool were originated under an investment property DSCR program.

Servicer advancing obligations

The servicers (Citadel, Planet Home, and SPS) are not obligated and will not advance delinquent P&I payments on any delinquent mortgage loan they service. In addition, no other transaction party is obligated to advance delinquent P&I payments on any delinquent mortgage loan.

Unlike P&I advances, the servicers must make advances of delinquent taxes and insurance (and other property preservation advances) 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 the lack of P&I advancing and stressed liquidity in our cash flow analysis as described further below.

Structural Features

MFA 2022-NQM3 Trust has a mix of pro rata and sequential payment structures. Principal is paid pro rata among the senior classes (subject to passing cumulative loss and delinquency trigger tests) and then sequentially to the subordinate classes. If the cumulative loss trigger test or the delinquency trigger test fails, principal will be used to first pay interest and interest carryforward amounts sequentially to senior classes A-1 and A-2, then principal sequentially to senior classes A-1 and A-2, then interest and interest carry-forward amounts to class A-3, and then principal to class A-3.

This transaction also uses monthly excess cash flow to cover current period realized losses and reimburse any applied realized loss amounts sequentially to classes A-1, A-2, A-3, M-1, B-1, B-2, and B-3.

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

The interest remittance amount includes the interest collected from borrowers (including interest payments that accompany prepayments; interest portions of liquidation proceeds, which are net of expenses; subsequent recoveries; redemption prices; termination prices; and repurchase amounts) minus aggregate servicing fees, securities administrator fees, trustee fees, custodial fees, loan data agent fees, the servicer advance reimbursements permitted under the PSA, reimbursable expenses incurred by the controlling holder, and extraordinary expenses, which are generally subject to a $300,000 annual cap. Although the extraordinary expenses are passed through as reduced contractual interest due to the certificateholders, we ran these expenses at a certain percentage of their capped amounts to stress the excess spread (as described in the Interest Stresses section below). We also considered the extraordinary expenses when analyzing projected interest reduction amounts (as described in the Imputed Promises section below).

Principal remittance amounts include the principal collected from borrowers (including prepayments; principal portions of liquidation proceeds, which are net of expenses; subsequent recoveries; redemption prices; termination prices; and repurchase amounts) minus fees (such as extraordinary expenses that could not be paid from interest collections).

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, and B-2 certificates.
2(a)	Prior to the payment date in September 2026, interest and interest carryforward amounts to class B-3 certificates.
2(b)	For any payment date, on or after September 2026, from any interest and interest carryforward amount otherwise payable to the class B-3(ii) certificates, first, to the extent of any unpaid cap carryover amount(iii) for the classes A-1, A-2 and A-3 certificates, to the step-up cap carryover reserve account, up to the cap carryover amount for the class A-1, A-2 and A-3 certificates for such payment date; second, sequentially, from amounts on deposit in the step-up cap carryover reserve account, to the class A-1, A-2 and A-3 certificates any unpaid cap carryover amounts thereon; and third, to class B-3, any remaining interest and interest carryforward amounts.

Table 5

Interest Payment Waterfall (cont.)

Priority	Payment
3	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 weighted average coupon rate. Our preliminary ratings address the full payment of all interest and interest carryforward amounts by the final maturity date. (ii) The interest and interest carryforward amounts otherwise payable to the class B-3 certificates that are deposited into the step-up cap carryover reserve account pursuant to clauses two and three above will not be reimbursed to the class B-3 certificates. (iii)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 the actual amount due, based on 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. WAC--Weighted average coupon.

Table 6

Principal Payment Waterfall (If The Cumulative Loss And Delinquency Triggers Pass)

Priority	Payment
1	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	Interest and interest carryforward amounts to a subordinate class and then principal to that subordinate class until reduced to zero--paid sequentially to classes M-1, B-1, and B-2, in that order, with both interest and principal paid to a class before payments to the next class (IPIP).
4(a)	Prior to the payment date in September 2026, interest and interest carryforward amounts to class B-3 certificates.
4(b)	For any payment date, on or after September 2026, from any interest and interest carryforward amount otherwise payable to the class B-3 certificates, first, to the extent of any unpaid cap carryover amount for the class A-1, A-2 and A-3 certificates, to the class A cap carryover reserve account, up to the cap carryover amount for the class A-1, A-2 and A-3 certificates for such payment date; second, sequentially, from amounts on deposit in the class A cap carryover reserve account, to the class A-1, A-2 and A-3 certificates any unpaid cap carryover amounts thereon; and third, to class B-3, any remaining interest and interest carryforward amounts.
5	Principal to class B-3 certificates, until the balance is reduced to zero.
6	Any remaining amounts paid as part of monthly excess cash flows.

IPIP--Interest, principal, interest, principal.

Table 7

Principal Payment Waterfall (If The Cumulative Loss Or Delinquency Triggers Fail)

Priority	Payment
1	Interest and interest carryforward amounts (to the extent not paid after the allocation of the interest remittance amount) sequentially, to the class A-1 and A-2 certificates.
2	Principal sequentially to class A-1 and A-2 certificates until reduced to zero.
3	Interest and interest carryforward amounts to the class A-3, M-1, B-1, and B-2 certificates followed by principal payments to that class sequentially in that order, with both interest and principal paid to a class before payments to the next class (IPIP), until the balance is reduced to zero.
4(a)	Prior to the payment date in September 2026, interest and interest carryforward amounts to class B-3 certificates.

Table 7

Principal Payment Waterfall (If The Cumulative Loss Or Delinquency Triggers Fail) (cont.)

Priority	Payment
5(b)	For any payment date, on or after September 2026, from any interest and interest carryforward amount otherwise payable to the class B-3 certificates, first, to the extent of any unpaid cap carryover amount for the class A-1, A-2 and A-3 certificates, to the class A cap carryover reserve account, up to the cap carryover amount for the class A-1, A-2 and A-3 certificates for such payment date; second, sequentially, from amounts on deposit in the class A cap carryover reserve account, to the class A-1, A-2 and A-3 certificates any unpaid cap carryover amounts thereon; and third, to class B-3, any remaining interest and interest carryforward amounts.
6	Principal to class B-3 certificates, until the balance is reduced to zero.
7	Any remaining amounts paid as part of monthly excess cash flows.

IPIP--Interest, principal, interest, principal.

Table 8

Monthly Excess Cash Flow Waterfall

Priority	Payment
1	Sequentially, up to the realized loss amount for the current period, to the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates, in that order, until each certificate is reduced to zero.
2a	Sequentially, up to the cumulative applied realized losses, to the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates, in that order, until each certificate is reduced to zero.
2b	Sequentially, up to the remaining cumulative applied realized losses, 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 classes applied realized loss amounts previously allocated to them (to the extent the applicable certificate amount has not been previously written up).
3	To the cap carryover reserve account, up to the aggregate cap carryover amount(i) for the class A-1, A-2, A-3, certificate for that payment date; and then sequentially, from amounts on deposit in the cap carryover reserve account, to the class A-1, A-2, A-3, certificate, in that order, any unpaid cap carryover amounts on those classes.
4	To the class XS certificates, any class XS interest payment amount and any previously accrued and unpaid class XS interest payment amount.
5	To the transaction parties, pro rata, any fees, expenses, or indemnification amounts not previously paid due to the application of the annual cap and any subcaps.
6	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 the actual amount due, based on 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. WAC--Weighted average coupon.

Interest on classes A-1, A-2, and A-3 is based on the lower of the stated coupon on the certificates and the net WAC rate of the mortgage loans (defined as the weighted average of each loan's mortgage interest rate net of fees and extraordinary expenses). On each distribution date beginning in September 2026, the class A-1, A-2, and A-3 certificates will receive a step-up pass-through rate, which is the sum of the applicable fixed coupon at closing and 1.00%, subject to the pool's net weighted average coupon (WAC). In line with our ratings definitions and criteria, our ratings address interest payments at the lower of the fixed coupon and the net WAC rate (see, "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published April 17, 2020). Interest on classes M-1, B-1, B-2, and B-3 is equal to the net WAC rate. At any distribution date on or after September 2026, amounts otherwise payable to B-3 as interest or interest carryforward can be used to pay class A-1, A2 and A-3 cap carryover (with such amounts not reimbursed to B-3 later).

Under the transaction documents, 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 fixed rate and the net WAC rate for classes A-1, A-2, and A-3, and at the net WAC rate for classes M-1, B-1, B-2, and B-3. Our preliminary ratings address ultimate P&I payments (including interest carry-forward amounts) by the certificates' final maturity date.

However, the preliminary ratings 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 are 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.

In MFA 2022-NQM3, the 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 be depleted due to scheduled and prepaid principal paid to the subordinate classes, the credit enhancement in MFA 2022-NQM3 does not deplete since no principal payments are made on the subordinate certificates while the senior classes are outstanding.

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 believe the transaction is adequately enhanced for the assigned preliminary ratings. Our view considers any tail risk considerations (see the Large Loans And Tail Risk Considerations section below). The transaction starts with 19.95% enhancement for the senior classes, which then grows as a percentage of the current balance as they get paid down. Additionally, the delinquency trigger and cumulative loss trigger (see tables 9A and 9B) protect 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 principal payment priority among the senior classes to sequential.

Table 9A

Delinquency Trigger Event

Distribution date occurring in the following periods	Six-month average of 60+ day delinq. plus loans modified in past 12 months (as a % of the current pool balance)(%)
September 2022 – August 2024	10.0
September 2024 – August 2025	15.0
September 2025 – August 2027	20.0
September 2027 and thereafter	25.0

Table 9B

Cumulative Loss Trigger Event

Distribution date occurring in the following periods	Applied realized loss amounts since closing date (as a % of the cutoff date pool balance) (%)
September 2022 – August 2025	2.0
September 2025 – August 2026	3.0
September 2026 – August 2027	4.0

Table 9B

Cumulative Loss Trigger Event (cont.)

Distribution date occurring in the following periods	Applied realized loss amounts since closing date (as a % of the cutoff date pool balance) (%)
September 2027 and thereafter	7.0

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 certificates will be written up to the aggregate amount of applied realized losses previously allocated sequentially to the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates.

Geographic Concentration

S&P Global Ratings analyzes the pool's geographic concentration risk based on the concentrations of loans in each of the 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 41.38% of the aggregate pool (see table 10). Because of this concentration, we applied a Herfindahl-Hirschman Index pool-level adjustment factor (a concentration measure based on the sum of the squared CBSA concentrations related to a benchmark concentration) of roughly 1.03x.

Table 10

Geographic Concentration

CBSA code(i)	CBSA	State	% by balance
31084	Los Angeles-Long Beach-Glendale	Calif.	19.20
33124	Miami-Miami Beach-Kendall	Fla.	7.07
41740	San Diego-Chula Vista-Carlsbad	Calif.	6.48
11244	Anaheim-Santa Ana-Irvine	Calif.	4.70
40140	Riverside-San Bernardino-Ontario	Calif	3.93
Top five	--	--	41.38

(i)The 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).

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 certificates 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 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 subordinate classes, which make up 19.95% of the capital structure, the preliminary 'AAA (sf)', 'AA (sf)', and 'A (sf)' rated classes effectively have a floor of 19.95% initially. Since subordination to the senior classes is locked in at the above mentioned floor and the subordinate classes are locked out from receiving any principal payments until the senior classes are paid down, the % should be available to absorb losses in the event defaults begin to occur after an extended period of benign performance, which is the scenario our tail risk analysis is intended to address. Further, when cumulative losses or delinquencies trip the cumulative loss or delinquency triggers, respectively, the payment priority becomes fully sequential.

To analyze the appropriateness of this effective credit enhancement floor, according to our criteria, we use an approach outlined in "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018. Based on this approach, instead of focusing on the largest loans by balance at issuance, we risk-weighted the loans in the transaction by focusing on those loans with the largest expected loss exposures, assuming default. The resulting projected losses at the 'AAA (sf)', 'AA (sf)', and 'A(sf)' level are below the 19.95% effective floor provided in the deal.

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

MOA Review

MFA Financial Inc.

The loans in the transaction were originated by Citadel (Acra Lending; 60.86%), FundLoans Capital (24.61%), Excelerate Capital (8.26%), 5th Street Capital (5.05%), and six various other originators making up 1.22% of the pool. We conducted a transaction-specific review for this transaction and focused on the historical loan performance of the Citadel and FundLoans Capital's non-QM loans acquired by MFA and considered the due diligence results from S&P Global Ratings-reviewed third-party due diligence firms on 100% of the loans.

MFA, the aggregator, is a New York-based public (NYSE: MFA) company that was formed in 1997 and began operations in 1998 as a REIT. The company invests in, among other assets, residential whole loans by purchasing packages of newly originated non-QM, re-performing and nonperforming whole loans, and certain other mortgage products. MFA funds its purchases primarily through the use of repurchase agreements (repos).

MFA has purchased non-QM loan pools from various sellers to date (starting in the fourth quarter of 2017). Although MFA has a moderate history of purchasing non-QM loans, it has extensive experience purchasing, trading, and securitizing residential whole loans, agency and non-agency mortgage-backed securities, as well as re-performing and nonperforming residential mortgage loans.

MFA has 100% due diligence conducted on the loans that it acquired from Citadel and FundLoans Capital that are included in the pool using a third-party review firm that is on S&P Global Ratings' reviewed list. The scope of the review, which is consistent with market standards, comprises a full review of these loans (credit; compliance, as applicable; and property valuation).

Our quantitative analysis was based on our review of loan performance information provided by MFA on the loans it acquired as of July 31, 2022, the majority of which are from Acra Lending. The company has moderate loan performance history on non-QM loans because it started aggregating non-QM loans in the fourth quarter of 2017. Although MFA has experienced housing and economic downturns over its life, its non-QM loans have not gone through a normal economic cycle.

We reviewed the origination volume and performance history for these loans, including delinquencies, early payment defaults (EPDs), losses, and repurchases for MFA. As expected, given the loans' limited seasoning, the company reported that the loans in its portfolio have experienced limited 60-plus-day and 90-plus-day delinquencies, or EPDs, and no losses. As of July 2022, MFA has put back three non-QM loans (0.12% by pool balance) to Acra Lending for EPDs since it started acquiring non-QM loans in 2017.

We applied a transaction-specific 1.05x to the loss coverage at all rating categories to reflect our view of MFA's aggregation platform as well as Citadel's and FundLoans Capital's origination data performance for the loans that MFA acquired.

Third-Party Due Diligence Review

Infinity, Canopy, Clayton, AMC, and Evolve performed third-party due diligence on 100% of the loans in the transaction. The scope of their loan reviews encompassed compliance (as applicable), credit, and valuation reviews.

Some loans fell within the scope of the Truth in Lending Act-Real Estate Settlement Procedures Act Integrated Disclosure rule (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). According to 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).

Some of the highlights of the findings include:

- Nine loans had a valuation 'C' grades applied in our analysis due to exceptions such as the first or second secondary valuation product having a variance greater than negative 10% or a secondary valuation product not being provided.
- One loan received a credit grade 'C' for the total cash out amount exceeding the guideline maximum.
- All of the loans received a grade "A" or "B" for regulatory compliance (where applicable).

We generally expect the scope of the due diligence review for seasoned and re-performing loans to incorporate a title and tax review, as well as a custodial document review, as outlined in our criteria. In this transaction, tax, title, and custodial document reviews were not performed as part of the due diligence scope. However, we did not make an additional adjustment due to the absence of those reviews, given that there has been no change to the servicer for the seasoned loans since MFA's acquisition, which was more than 12 months ago; or to the document custodian since the loans were originated, which we view as a mitigant to any incremental risk.

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

R&Ws

We reviewed the R&Ws made by the sponsor in this transaction 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 evaluated the strength of the R&Ws and considered whether any breach could have a materially adverse impact on the certificateholders' interests. If the loan-level R&Ws in the transaction documents do not address all risks deemed relevant, we determined whether we believe it is appropriate to assess additional credit enhancements. We also considered the R&W provider's ability to fulfill its obligations in the event of a breach.

The collateral pool consists of loans from four originators. The sponsor does not pledge the originators' R&Ws to the trust but instead makes R&Ws on the mortgage loans itself.

We consider the R&W framework to be weaker than those seen in recent prime jumbo transactions because the testing or curing of any breaches (other than any loans showing ATR-related losses) is not automatic but rather at the option of the controlling certificateholder (initially, the depositor who is an affiliate of the sponsor). However, 25.00% or more of the aggregate certificateholders will be able to initiate reviews at their expense if the controlling certificateholder chooses not to review or if those certificate holders disagree with the findings of the controlling holder on any review. The controlling certificateholder's expense for the R&W review will be reimbursed from the trust's interest remittance amount.

The R&Ws are generally consistent with our published criteria and will remain in effect for the transaction's life, though 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. In addition, the sponsor is required to appropriately remedy any ensuing R&W breach if it has a materially adverse impact on the loan by either curing the breach, substituting the loan based on defined requirements, or purchasing the mortgage loan at the repurchase price.

Although the issuer will include an EPD covenant that is consistent with other rated non-QM transactions, all of the loans in the transaction are seasoned beyond the EPD timeframe.

The enforcement mechanism for R&W breaches includes provisions for a breach review, at the controlling holder's option, by an independent reviewer or by the controlling holder itself for any loan that experiences a realized loss. A review is mandatory only in the case of an ATR-related realized loss. TRID defects, as determined by a judicial proceeding, will be repurchased if damages and fees associated with the violation exceed $400 without any review or consideration of materiality. Dispute resolutions are ultimately subject to binding arbitration proceedings, if necessary, to determine if a breach occurred. If the controlling holder prevails in arbitration, then the arbitration expenses are reimbursed as part of the extraordinary trust expenses. Otherwise, the expenses are not reimbursed by the trust.

Although our transaction-specific MOA reflects an adequate aggregation platform, in our view, a party with potentially limited repurchasing ability is providing the R&Ws. Therefore, we applied a 1.10x loss coverage adjustment to compensate for the risks associated with the financial capacity of the R&W provider, as well as weaknesses in the general construct of the R&W review framework as noted above. We believe this adjustment is appropriate in the context of the 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 to determine the preliminary ratings for each class consistent with our criteria, accounting for the available credit enhancement (see table 11). 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/flat interest rate curve assumptions;
- Extraordinary trust expense stresses;
- WAC deterioration stresses;
- Delinquency assumptions to stress liquidity for lack of servicer P&I advances; and
- Stressed servicing fee.

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
Delinquency curve	In addition to our standard delinquency curve that tests triggers, 20% of the loans are assumed to have defaulted under the default timing curve in a given month and remain delinquent for three months, affecting asset cash flows and liquidity						
Extraordinary trust expenses (% of capped amounts)(ii)		100.00	100.00	95.00	40.00	30.00	17.50
Foreclosure frequency (%)		59.37	52.93	43.20	33.84	24.28	15.10
Loss severity (%)		57.69	51.39	41.09	34.87	30.48	26.49
Loss coverage (%)		34.25	27.20	17.75	11.80	7.40	4.00

(i)Using a standard prepayment convention. (ii)Applied monthly from period 13 to 60. CPR--Conditional prepayment rate.

Notwithstanding the use of excess interest within the transaction structure, we applied 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 the limited seasoning of the loans, 100% third-party due diligence, and structural considerations, such as mix of pro rata and sequential principal allocations among the classes and no P&I advancing by the servicers (see table 12).

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

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)	60.80	39.20	34.25	4.95
A-2	AA (sf)	8.40	30.80	27.20	3.60
A-3	A (sf)	10.85	19.95	17.75	2.20
M-1	BBB (sf)	6.10	13.85	11.80	2.05
B-1	BB (sf)	4.90	8.95	7.40	1.55
B-2	B (sf)	3.85	5.10	4.00	1.10
B-3	NR	5.10	0.00	N/A	N/A

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

Servicer stop advance stresses

The transaction documents do not provide for the servicers to advance delinquent P&I to the trust. Therefore, no P&I advances were modeled 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). In addition, based on our criteria, we assumed temporary delinquencies equal to 20.00% of the loans assumed to default (under our default timing curve in a given month) would remain delinquent for three months before curing. Our cash flow projections take into account these liquidity stresses and the transaction's ability to make monthly interest payments and, if necessary, interest carryforward amounts, by the final maturity date on the preliminary rated classes.

WAC deterioration stress

To address the potential for a pool's WAC to decline over time as higher coupon loans prepay or default, we stress the pool's projected cash flows by reducing the interest accrued on the assets. Where appropriate, we review the distribution of loan coupons in the pool, based on measures such as the standard deviation, interquartile range, and maximum/minimum ranges to assess the pool's homogeneity with respect to loan coupons.

Generally, the stress is based on the pool's WAC at the time of analysis versus 10 years later, based on an assumed reduction in the pool balance of 10.00% per year applied to the loans with the highest coupons. This WAC difference is the maximum WAC deterioration assumed for the pool. The stress applied starts at zero in the transaction's first month and increases linearly each month to the maximum through year 10, at which point it remains constant at the maximum through the deal's remaining life. This stress is applied in all cash flow stress scenarios at all rating levels. For this mortgage pool, we applied a maximum WAC deterioration of 1.14%.

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 from period 13 to 60 (four years) at a certain percentage (see table 11) of the capped amounts. We do this to test the impact on the securities' liquidity, which rely on excess spread as a form of credit enhancement.

We also believe the aggregate servicing fee rate of 35 bps provided in the documents to be relatively low for non-QM loans. We observed the aggregate servicing fee typical for non-QM products to be around 50 bps. We believe the 35 bps might not be adequate to attract quality servicers should the servicing function need to be transferred and allow the successor servicer to effectively perform their duties including loss mitigation. Additionally, Planet Home and SPS's underlying servicing fee framework has a per loan base fee with additional loan servicing incentives which could increase their respective aggregates servicing fee to be higher than the 35 bps. We believe a fee rate of 50 bps would be sufficient to allow a successful transfer, if necessary, and cover any potential increase to the aggregate servicing fee from any potential additional incentive servicing fees on a portion of the pool (In the event Planet Home or SPS were to be replaced, the incentive servicing fee framework fee would be eliminated) and thus stressed the transaction with this rate.

Imputed Promises Analysis

Based on our criteria ("Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018) and related 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 part of this analysis because it is already accounted for (e.g., through the application of our default timing stresses) or not considered a credit-related event (e.g., voluntary prepayment of principal).

Because this transaction provides for credit-related loan modifications and extraordinary trust expenses to reduce the net WAC, at which the transaction's certificate 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). Because this is a new issue transaction, there were no outstanding cumulative interest reduction amounts to be considered.

Consistent with our criteria, we assumed that 50.00% of the loans projected to default under the applicable rating stress would be modified. We also assumed that 75.00% of the projected modifications are interest rate modifications, with an interest rate reduction of 2.00%. When added to the extraordinary trust expenses, this 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 48 months, starting from month 13 through 60 of the transaction's life. 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 both minimal when they occur and 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. 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, there are three possible rankings for severity risk and portability risk: high, moderate, or low. For disruption risk, there are four possible rankings: very high, high, moderate, or low.

According to our criteria, we rank severity and portability risk for nonprime residential mortgage collateral as moderate and low, respectively. For this transaction; Citadel, Planet Home, and SPS, as servicers, are the KTPs. We assess the disruption risk for Citadel, Planet Home, and SPS as low. Given these risk assessments, our criteria do not cap the ratings on the transaction.

Related Criteria

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- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- 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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- Criteria | Structured Finance | RMBS: Assumptions Supplement For Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later, Feb. 22, 2018
- Criteria | Structured Finance | RMBS: Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later, Feb. 22, 2018

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- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Select Servicer List, July 26, 2022
- S&P Global Ratings Publishes List Of Third-Party Due Diligence Firms Reviewed For U.S. RMBS As Of July 13, 2022, July 13, 2022
- Economic Outlook U.S. Q3 2022: The Summer Of Our Discontent, June 27, 2022
- Housing Overvaluation Trend Continues: What It Means For U.S. RMBS, April 5, 2022
- U.S. Housing And Mortgage Outlook 2022, Jan. 27, 2022
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- Credit Rating Model: LEVELS Model For U.S. Residential Mortgage Loans, Aug. 5, 2019
- 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
- Older RMBS Transactions Face Increased Tail Risk As Their Pools Shrink, Aug. 9, 2012