S&P Global Ratings

Research

Presale:

PRKCM 2023-AFC2 Trust

June 5, 2023

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Preliminary ratings

Class	Preliminary rating(i)	Initial interest rate (%)(ii)	Preliminary amount ($)	Credit enhancement (%)(iii)	Class type
A-1	AAA (sf)	Fixed(iv)	195,324,000	38.30	Senior/pro rata
A-2	AA (sf)	Fixed(iv)	33,082,000	27.85	Senior/pro rata
A-3	A (sf)	Fixed(iv)	38,938,000	15.55	Senior/pro rata
M-1	BBB (sf)	Net WAC(v)	17,095,000	10.15	Mezzanine/sequential
B-1	BB (sf)	Net WAC	12,188,000	6.30	Subordinate/sequential
B-2	B (sf)	Net WAC	9,972,000	3.15	Subordinate/sequential
B-3	NR	Net WAC(v)	9,972,547	0.00	Subordinate/sequential
A-IO-S	NR	(vi)	Notional(vii)	N/A	Excess servicing strip
XS	NR	(viii)	Notional(vii)	N/A	Subordinate, monthly excess cash flow, prepayment charges, and default interest
R	NR	N/A	N/A	N/A	Residual

Note: This presale report is based on information as of June 5, 2023. 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 preliminary ratings address the ultimate payment of interest and principal. (ii)Interest can be deferred on the classes, the fixed coupons are subject to the pool's net WAC rate, and interest rate on the class M-1, B-1, B-2, and B-3 notes equals the pool's net WAC. (iii)This credit enhancement is solely from subordination. Excess spread also provides credit enhancement. (iv)On each distribution date beginning in June 2027, the class A-1, A-2, and A-3 notes will receive the sum of the applicable fixed coupon and a step-up interest rate of 1.00%, subject to the pool's net WAC. (v)The note rate for the class M-1 will be determined at the time of pricing. It will either be (a) fixed coupon subject to the pool's net WAC or (b) net WAC. In the provided structure the class was modeled as net WAC (vi)On each distribution date, amounts otherwise payable to the class B-3 notes as interest, including interest carryforward, will be used to pay the class A-1, A-2, and A-3 note cap carryover amounts, with such amounts not reimbursed to the class B-3 notes later. (vii)Excess servicing strip. (viii)The notional amount will equal the aggregate stated principal balance of the mortgage loans as of the first day of the related due period and is initially $316,571,548. (ix)This class will receive certain excess amounts including prepayment premium and default interest, and will not be entitled to payments of principal. WAC--Weighted average coupon. NR--Not rated. N/A--Not applicable.

Profile

Expected closing date	June 14, 2023.
Cutoff date	May 1, 2023.
Distribution date	The 25th of each month, or the next business day, beginning June 25, 2023.

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Profile (cont.)

Stated final payment date	Feb. 25, 2058.
Note balance, including unrated classes	$316.5 million, in aggregate.
Collateral types	First-lien, fixed- and adjustable-rate, fully amortizing residential mortgage loans to both prime and nonprime borrowers (some with interest-only periods). The loans are secured by single-family residential properties, planned unit developments, condominiums, townhomes, and two- to four-family residential properties. The pool consists of 725 loans, which are primarily ATR-exempt loans and non-QM/ATR-compliant loans.
Collateral	U.S. residential mortgage loans.
Credit enhancement	Each class of rated notes has subordination in the form of notes that are lower in payment priority and excess spread that preserves subordination.

QM--Qualified mortgage. ATR--Ability to repay.

Participants

Issuer	PRKCM 2023-AFC2 Trust.
Sponsor	Park Capital Management Sponsor LLC.
Depositor	Park Capital Management Depositor LLC.
Seller, originator, and servicer	AmWest Funding Corp.
Master servicer	Nationstar Mortgage LLC.
Paying agent/certificate registrar/note registrar/REMIC administrator	Citibank N.A.
Indenture and owner trustee	Wilmington Savings Fund Society FSB.
Loan data agent	DV01 Inc.
Custodian	Deutsche Bank National Trust Co.

Originator

Entity	By pool balance (%)	Due diligence (%)	Originator ranking
AmWest Funding Corp.	100	100	AVERAGE

Servicers

	By pool balance (%)	S&P Global Ratings' select servicer	Operation
AmWest Funding Corp.	100	No	Primary servicer
Nationstar Mortgage LLC	100	Yes	Master servicer

Rationale

The preliminary ratings assigned to PRKCM 2023-AFC2 Trust's (PRKCM 2023-AFC2's) mortgage-backed notes reflect our view of:

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- The pool's collateral composition (see the Collateral Summary section);
- The transaction's credit enhancement, associated structural mechanics, representation and warranty (R&W) framework, and geographic concentration;
- The mortgage originator, AmWest Funding Corp. (AmWest); and
- The potential impact current and near-term macroeconomic conditions may have on the performance of the mortgage borrowers in the pool. Per our latest macroeconomic update (see "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March 27, 2023), we continue to expect that the U.S. will fall into recession in 2023. Also, we now expect U.S. GDP to decline 0.30% from its peak in first-quarter 2023 to its third-quarter trough. If correct, this will beat the 2001 recession as the softest recession since 1960. Although safeguards from the Federal Reserve and other regulators have stabilized conditions, banking concerns increase risks of a worse outcome. Chances for a worsening recession have increased, with inflation moderating faster than expected in our baseline forecast. As a result, we continue to maintain the revised outlook per the April 2020 update to the guidance to our RMBS criteria, which increased the archetypal 'B' projected foreclosure frequency to 3.25% from 2.50% (see "Guidance: Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published April 17, 2020).

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 environmental and social credit factors are in line with the sector 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 for borrowers. Social risk is generally factored into our base-case assumptions for RMBS transactions based on our consideration of the origination platform, 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 has exposures in line with the environmental credit factors in 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 weaknesses related to the transaction's R&W framework. While individual R&Ws are consistent with our benchmarks, the loans are generally not subject to a mandatory review in the case of default. By applying an R&W pool-level adjustment factor to the transaction, we have accounted for this risk related to ESG credit factors. As an additional mitigant to this risk, we considered that 100% of the loans in the pool were subject to a third-party due diligence review (see the Third-Party Due Diligence Review section below for more detail).

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Overview

PRKCM 2023-AFC2 is Park Capital Management Sponsor LLC's sixth non-qualified mortgage (non-QM) RMBS transaction rated by S&P Global Ratings. PRKCM 2023-AFC2 has a high concentration of loans underwritten to a debt service coverage ratio (DSCR) or a no-ratio property-focused investor program like the preceding transactions.

Noteworthy Features

High concentration of DSCRs less than 1.00x and no-ratio loans

The transaction includes 370 loans (39.56% by pool balance) that are property-focused investor loans underwritten to an investment property business-purpose program.

Of the above 370 loans, 261 loans (22.79% by pool balance) were underwritten using a DSCR based on actual or estimated rents from the property. The weighted average non-zero DSCR is 1.04x.

Ninety-seven loans (9.24% by pool balance) had DSCRs less than 1.00x under the property-focused investor loan program. The DSCR calculations provided by the issuer for these 97 loans ranged from 0.77x to 0.99x, with a weighted average DSCR of 0.88x. These loans have a weighted average FICO of 724, which is lower than the weighted average FICO of the pool at 738; however, the weighted average used combined loan-to-value (CLTV) of 66.13% is comparable to the overall pool weighted average used CLTV of 67.47%. Of these 97 loans, 78 loans (7.2% by pool balance) were purchase loans.

The remaining 109 loans (16.77% by pool balance) are property-focused investor loans qualified without using this ratio based on other characteristics, such as FICO scores and LTV ratios. We evaluated these non-DSCR, no-ratio loans as if they were DSCR loans with a DSCR of zero, and our loss model applied a 6.0x adjustment to the foreclosure frequencies to these loans. These loans have a weighted average FICO of 729 comparable to the weighted average FICO of the pool at 738 and a better weighted average used CLTV of 65.09% compared to the pool weighted average used CLTV of 67.47%. Of these 109 loans, 72 loans (11.30% by pool balance) were purchase loans.

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

On each distribution date beginning in June 2027 and thereafter, the class A-1, A-2, and A-3 notes will receive a step-up note 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). We believe this step-up feature may motivate the sponsor 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 aggregate stated principal balance of the loans is less than or equal to 20.00% of the aggregate stated principal balance of the loans as of the cutoff date.

Class B-3 interest is used to cover potential cap-carry over amounts of the class A-1, A-2, and A-3 notes

On each distribution date, the interest (including interest carryforward amounts) otherwise

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

Temporary buydown loans

This transaction includes nine loans (1.57% by pool balance) that were originated with temporary buydown plans where the borrower will make monthly payments that are less than the scheduled payment in the early years of their loan. Seven loans (1.07% by pool balance) are originated with 2-1 buydowns, two loans (0.49% by pool balance) are 1-0 buydowns, and all the loans are qualified using the full note rate. The difference in payment will be contributed from a custodial account at the servicer that is fully funded by the seller or lender that is providing the concession. However, the borrower will continue to be responsible for the full payment if the buydown funds become unavailable for any reason. If the borrower prepays the loan or the loan is liquidated, the funds will be credited to the borrower and applied to the outstanding balance due. We assessed these buydown loans and after accounting for the expected payment shock and evaluating comparable risks in adjustable rate and interest only loans, we applied a 1.10x adjustment to the foreclosure frequency for each of these loans.

Excess spread compression

The fixed-rate bond coupons are relatively high compared to the pool's net WAC, 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 because our ratings do not address the payment of cap carryover amounts.

Low aggregate servicing fees

We believe the aggregate servicing fee rate of 25 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 fee higher than 25 bps, it will reduce the funds available to distribute to the notes (i.e., reduce the excess spread that acts as soft credit enhancement). Therefore, we ran our cash flow stresses using an aggregate servicing fee of 50 bps at each rating level to stress the excess spread.

Collateral Summary

PRKCM 2023-AFC2's assets consist primarily of fixed- and adjustable-rate, fully amortizing, non-QM, and ability-to-repay (ATR) exempt loans (some with interest-only periods) secured by first liens on single-family residential properties, planned unit developments, condominiums,

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townhomes, and two- to four-family residential properties (the mortgage loans). The mortgage pool consists of 725 loans with a principal balance of approximately $316.5 million as of the cutoff date.

The collateral pool is weaker than the S&P Global Ratings' archetypal prime pool but it is generally in line with our expectations for a nonprime residential mortgage pool from a credit perspective (see table 1). The pool's 'AAA' loss coverage requirement was determined to be 28.70%. In our analysis, we considered the following mortgage loan characteristics to be weaker than the archetypal pool:

- A significant number of business-purpose investor loans;
- Alternative income documentation on certain loans;
- A significant number of non-QM loans;
- NPRAs or foreign national borrowers for certain loans;
- Loan purpose (cash-out refinances);
- Self-employed borrowers for certain loans;
- Loan type (adjustable-rate mortgage loans, interest-only features, buydown features);
- Property type (condominium and two- to four-family homes); and
- Occupancy status (second home or investor property).

The mortgage loans consist of adjustable-rate mortgage loans (65.11% by pool balance) and fixed-rate mortgage loans (34.89%). The mortgage pool includes 1.77% interest-only loans. The weighted average seasoning for the pool is approximately one month.

The collateral pool is stronger than the previous PRKCM 2023-AFC1 Trust non-QM transaction, which was rated by S&P Global Ratings. When compared to the PRKCM 2023-AFC1 Trust transaction, PRKCM 2023-AFC2 has similar weighted average loan purpose, debt-to-income (DTI) ratios, and loan type adjustment factors. However, the weighted average DSCR adjustment is lower (see chart 1). The document type adjustment factor is also slightly lower due to a lower concentration of loans underwritten to alternative documentation. Furthermore, PRKCM 2023-AFC2 has a slightly better overall FICO score/CLTV adjustment factor of 0.81x when compared to the PRKCM 2023-AFC1 Trust transaction.

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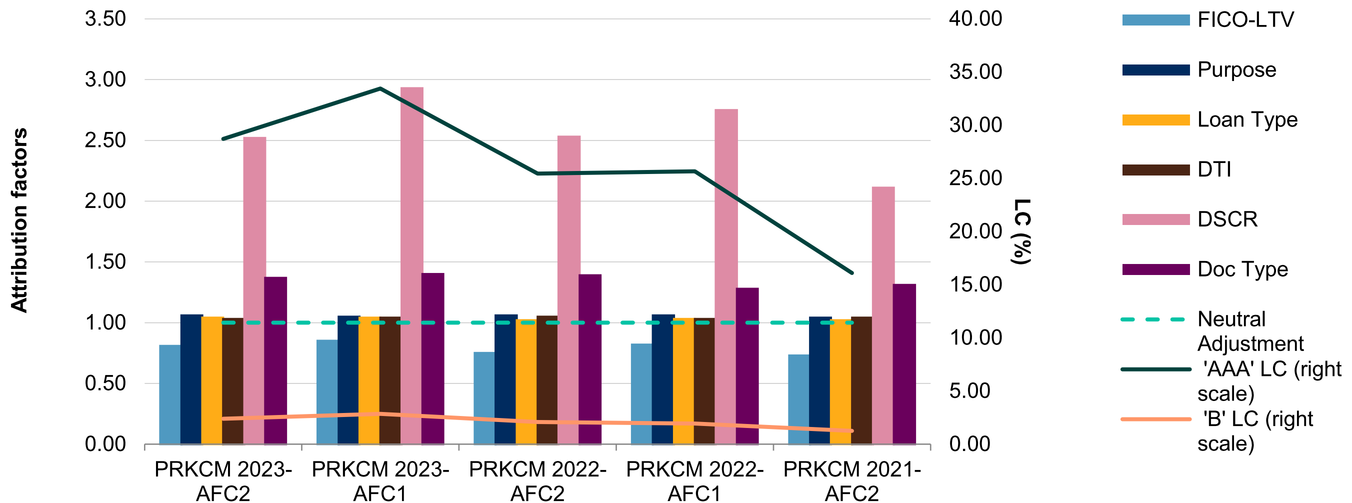
Chart 1

Adjustment factor comparison



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

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The mortgage pool has a weighted average current CLTV ratio of 67.44%. The weighted average FICO score for the collateral pool is 738, 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 142 loans made to non-permanent resident aliens or foreign national borrowers (17.78% by pool balance), of which 91 loans are to borrowers without a FICO score. We assessed these loans in our credit analysis using a FICO score of 700, which is approximately the mortgage pool's average FICO score minus one standard deviation. For all 142 loans to foreign borrowers, we applied a 1.50x multiple to the foreclosure frequencies.

Table 1

Updated credit score statistics

FICO score	Current balance (%)	No. of loans	Average original CLTV (%)
>=750	40.49	282	67.97
725-749	18.70	124	68.87
700-724	29.26	222	67.43
675–699	7.65	60	65.28
650–674	3.02	27	63.72
625-649	0.88	10	54.63
Total	100.00	725	67.53

CLTV--Combined loan-to-value ratio.

Mortgage loans backed by primary residences comprise approximately 44.64% of the pool by

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balance. The mortgage loans are secured by first liens on single-family residences (51.06% by pool balance), planned unit developments (38.18%), two- to four-family homes (4.14%), and condominiums (6.63%) (see table 2).

Table 2

Collateral characteristics

	PRKCM 2023-AFC2	PRKCM 2023-AFC1	PRKCM 2022-AFC2	PRKCM 2022-AFC1	PRKCM 2021-AFC2	PRKCM 2021-AFC1	CSMC 2022-NQM6	CSMC 2022-NQM5	Archetypal pool(i)
Closing pool balance (mil. $)	316.6	497.5	314.6	319.5	395.2	309.6	94.2	391.8	N/A
Closing loan count (no.)	725	1004	684	703	881	640	258	884	N/A
Avg. loan balance ($)	436,650	495,511	459,987	454,539	448,585	483,738	364998	442,238	N/A
WA original CLTV (%)	67.5	71.2	68.0	70.0	68.7	68.8	69	69.0	75.0
WA current CLTV (%)	67.4	70.9	67.9	69.7	68.4	68.5	68.8	68.7	75.0
WA FICO(ii)	738	743	747	744	752	754	697	738	725
WA current rate (%)	8.54	7.96	6.51	4.50	4.20	4.50	8.94	5.41	N/A
WA original term (mos.)	360	360	360	360	360	360	362	362	360
WA seasoning (mos.)	1	4	1	3	2	3	2	3	0-6
WA debt-to-income (%)	37.8	39.8	40.1	38.6	38.3	39.5	32.32	36.7	36.0
WA DSCR (non-zero)	1.04	0.88	0.98	1.14	1.22	1.15	0.98	1.20	N/A
Owner occupied (%)	44.6	45.0	48.2	42.1	59.9	58.2	28.4	38.4	100
Single-family (including townhouses and unattached and attached PUDs) (%)	89.2	91.1	88.7	88.4	91.2	88.1	77.1	80.2	100
Adjustable-rate loans (%)	65.1	60.8	37.4	42.8	39.9	47.7	2.5	25.5	0
Loans with IO payments (%)	1.8	2.4	2.2	2.3	0.5	0.9	11.9	9.2	0
Purchase (%)	68.4	78.1	71.9	67.3	75.9	73.7	62.7	64.9	100
Cash-out refinancing (%)	25.2	18.2	23.3	24.1	14.2	14.1	30.4	27.9	0
Full documentation (%)	23.1	12.0	16.6	19.7	35.6	39.3	10	16.6	100
Alternative/bank statement/P&L statement documentation (%)	37.3	40.8	38.9	29.5	31.3	29.3	19.4	29.9	0
Other/asset depletion/DSCR documentation (%)	39.6	47.3	44.5	50.8	33.1	31.4	70.6	53.5	0
Self-employed borrowers (%)	37.1	41.6	38.9	29.6	31.7	29.4	34.6	30.5	0
Loans with coborrowers (%)	7.8	8.2	10.1	10.6	9.2	7.1	22.9	12.8	0
Loans to borrowers with multiple mortgages (%)(iii)	5.7	3.7	3.6	3.2	5.2	3.6	4.4	3.9	N/A
Loans to foreign borrowers (%)(foreign national and non-permanent resident aliens)	17.8	16.0	11.8	11.7	11.0	7.6	24.2	11.6	0
Modified loans (%)(iv)	0	0	0	0	0	0	0	0	0
PCEs (%)(iv)	0	0	0	0	0	0	0.3	0.1	0
Current (%)	100	100	100	100	100	100	100	100	100
30+ day delinquent (%)(v)	0	0	0	0	0	0	0	0	0

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Table 2

Collateral characteristics (cont.)

	PRKCM 2023-AFC2	PRKCM 2023-AFC1	PRKCM 2022-AFC2	PRKCM 2022-AFC1	PRKCM 2021-AFC2	PRKCM 2021-AFC1	CSMC 2022-NQM6	CSMC 2022-NQM5	Archetypal pool(i)
Length of P&I Advancing (mos.)(vi)	6	6	6	6	6	6	6	6	Full
Pool-level adjustments (multiplicative factors)									
Geographic concentration	1.03	1.06	1.09	1.09	1.09	1.18	1	1.03	1.00
Mortgage operational assessment	1.00	1.00	1.00	1.00	1.00	1.00	1.05	1.00	1.00
Representations and warranties	1.10	1.10	1.10	1.10	1.10	1.10	1.1	1.10	1.00
Other (forbearance/deferral/loan modification)	1.00	1.00	1.00	1.00	1.00	1.00	1	1.00	1.00
Other (i.e., PCE/due diligence)	1.00	1.00	1.00	1.00	1.00	1.00	1	1.00	1.00
Combined pool-level adjustments(vii)	1.13	1.17	1.20	1.20	1.20	1.30	1.16	1.13	1.00
Loss estimation									
'AAA' loss coverage (%)	28.70	33.45	25.45	25.65	16.10	15.15	49.8	28.85	7.50
'AAA' foreclosure frequency (%)	47.64	53.47	43.54	45.87	32.95	33.63	75.32	50.16	15.00
'AAA' loss severity (%)	60.24	62.56	58.45	55.92	48.86	45.05	66.12	57.52	50.00
'BBB' loss coverage (%)	8.70	10.35	7.70	7.45	4.70	4.35	17.9	9.45	1.92
'BBB' foreclosure frequency (%)	26.36	29.66	23.73	25.23	17.52	17.83	46.35	28.15	6.41
'BBB' loss severity (%)	33.00	34.9	32.45	29.62	26.83	24.40	38.62	33.57	30.00
'B' loss coverage (%)	2.40	2.85	2.10	1.95	1.25	1.20	6.65	2.85	0.65
'B' foreclosure frequency (%)	11.09	12.18	9.70	10.27	7.21	7.31	24.9	12.15	3.25
'B' loss severity (%)	21.64	23.40	21.65	18.99	17.34	16.42	26.81	23.46	20.00

(i)As defined in our Feb. 22, 2018, criteria article (see the Related Criteria section). The guidance document published April 17, 2020, reflects a revision to our 'B' (base case) projected foreclosure frequency assumption for an archetypal loan to 3.25% from 2.50%. (ii)The most recent FICO scores obtained. For PRKCM 2023-AFC2, we assumed a FICO score of 700 for foreign borrowers who are missing FICO scores. (iii)Limited to borrowers who have multiple mortgage loans or properties included in the securitized pool. (iv)Limited to modified and PCE loans considered in our analysis. (v)Does not include loans that are in forbearance-related repayment plans. The paystring was made current. (vi)Months of P&I advancing on a delinquent mortgage loan to the extent those 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. PCE--Prior credit event. P&I--Principal and interest. N/A--Not applicable.

Transaction Structure

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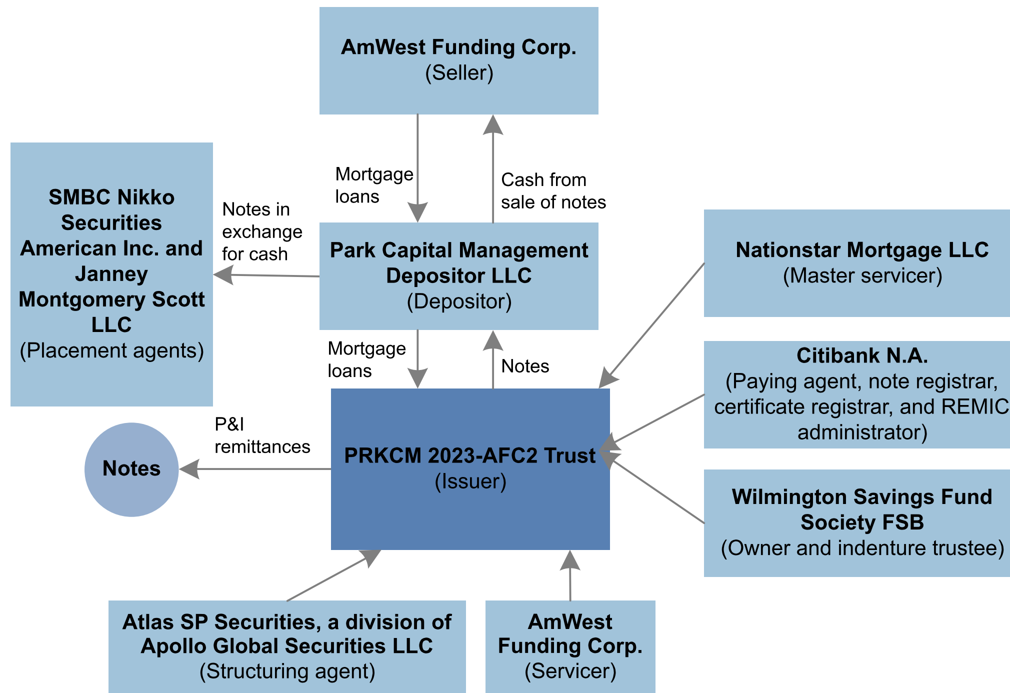
Chart 2

Transaction diagram



P&I--Principal and interest. REMIC--Real estate mortgage investment conduit.

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The transaction is structured as a double-true sale of the assets from the seller (AmWest) to the depositor (Park Capital Management Depositor LLC), and from the depositor to the issuing trust (PRKCM 2023-AFC2). The issuing trust transfers the notes to the depositor, and the depositor sells them to the initial purchaser, which in turn sells them to third-party investors. The depositor sells the non-offered notes and the notes required to be held to satisfy the risk retention rules to an affiliate of the sponsor.

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

Strengths And Weaknesses

We believe certain characteristics strengthen the transaction:

- The mortgage pool generally consists of loans to borrowers with significant home equity (the pool's weighted average original CLTV ratio of 67.53%) and prime quality credit scores (the pool's weighted average FICO score is 738).
- The third-party due diligence providers, Clarifii, Canopy, and Clayton Services LLC, which are on our list of reviewed providers, performed due diligence on 100% of the pool's loans regarding credit, property valuations, compliance (where applicable), and data quality.
- The class A-1, A-2, and A-3 notes (collectively, the senior classes) benefit from a credit support floor, where no principal is paid to the subordinate classes until the senior classes are retired.

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In addition, principal is paid sequentially among the senior classes in periods when the cumulative loss trigger or the delinquency trigger is breached, further protecting the more senior classes by limiting the erosion of subordination over time and mitigating tail risks from losses incurred later in the transaction's life.

We believe other factors weaken the transaction:

- The transaction includes 370 loans (39.56% by pool balance, including non-DSCR no-ratio program loans) that are property-focused investor loans that were underwritten to an investment property business-purpose program that did not consider the borrowers' income or employment in the underwriting process. We classified these loans as "other" documentation type and applied foreclosure frequency adjustment factor ranges from 3.15x to 6.00x.
- Income on certain mortgage loans (37.28% by pool balance) was verified using alternative documentation such as profit and loss (P&L) statements or bank statements. We view income verification using alternative documents to be a weaker standard than full documentation of income and, consequently, increased our loss coverages for these loans by applying an adjustment to the foreclosure frequencies. We applied an adjustment factor of 2.00x and 1.75x to the foreclosure frequencies for loans using 12-23 months, and 24 months or more, of income verification, respectively.
- The transaction includes 142 loans (18.00% by pool balance) that were made to non-permanent resident aliens or foreign national borrowers. We applied a 1.50x factor to the foreclosure frequencies for the loans. These loans include 91 loans that do not have FICO scores, for which we assumed a FICO score of 700 in our analysis.
- The loan purpose for 171 loans (25.21% by pool balance) is a cash-out refinance, with an average cash-out amount of $241,659.93 (73 loans have cash-out amounts greater than $200,000). We applied a 1.25x adjustment factor to the foreclosure frequency to account for the risk on these loans.
- The R&Ws related to the individual mortgage loans are made by the seller, AmWest. The R&Ws in this transaction are generally consistent with the set of representations published in our criteria. However, we view the R&W framework to be weak for various reasons, including because the review mechanism does not require an automatic review for breaches, the R&W provider may not have the financial capacity to cure or repurchase loans. A third-party due diligence on all the loans somewhat mitigates the weaknesses of the framework. Consequently, we applied an R&W adjustment that increased our loss expectations at all rating levels by a 1.10x factor.
- The transaction is geographically concentrated in the urban areas of California (44.84%). Our geographic concentration analysis adjusts for this elevated concentration, and we applied a geographic concentration adjustment factor of 1.03x.

Credit Analysis And Assumptions

Our analysis of the PRKCM 2023-AFC2 collateral pool considered a number of factors, including certain loan-level characteristics detailed below.

Documentation type

The underlying origination guidelines allow income verification using paystubs, W-2s or W-2

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equivalents, tax returns, written verifications of employment (WVOEs), award letters, bank statements, P&L statements, lease agreements, DSCRs, and/or non-DSCR no-ratio programs. Table 3 shows the breakdown of the documentation type used in our analysis.

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	--	--	--	1.00	--
Full (24+ months)					
Tax return/W-2/Paystub/1099/Award letter	--	--	--	1.00	--
WVOE	165	23.08	24.0	1.00	17.14
Full (12-23 months)					
Tax return/W-2/Paystub/1099/Award letter	--	--	--	1.25	--
WVOE	--	--	--	1.25	--
Full (1-11 months)					
Tax return/W-2/Paystub/1099/Award letter	--	--	--	1.50	--
WVOE	--	--	--	1.50	--
Alternative documentation (i)					
24+ months (primary source)					
Bank statements	--	--	--	1.75	--
Business bank statements	--	--	--	1.75	--
Personal bank statements	--	--	--	1.75	--
Business and personal bank statements	--	--	--	1.75	--
P&L statements	5	0.74	24.0	1.75	35.73
CPA letter	--	--	--	1.75	--
12-23 months (primary source)					
Bank statements	24	3.70	12.0	2.00	39.61
Business bank statements	--	--	--	2.00	--
Personal bank statements	--	--	--	2.00	--
Business and personal bank statements	--	--	--	2.00	--
P&L statements	160	32.84	12.0	2.00	37.11
CPA letter	--	--	--	2.00	--

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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 (%)
1-11 months (primary source)					
Bank statements	--	--	--	2.25	--
Business bank statements	--	--	--	2.25	--
Personal bank statements	--	--	--	2.25	--
Business and personal bank statements	--	--	--	2.25	--
P&L statements	--	--	--	2.25	--
CPA letter	--	--	--	2.25	--
Other documentation					
Other (DSCR)	261	22.79	--	3.15-6.00	59.95
Other (applied 0.00 DSCR)	109	16.77	--	6.00	78.58
Other (asset depletion)	1	0.08	--	3.00	63.00

(i) The documentation source may include other secondary documentation types. WA--Weighted average. WVOE--Written verification of employment. P&L--Profit and loss. DSCR--Debt service coverage ratio.

Full documentation was used for fully verifying and calculating the borrower's qualifying income on approximately 23.08% of the pool by balance. All loans categorized as full documentation were originated using WVOEs. We applied a documentation-type adjustment factor of 1.00x for all full-documentation loans because the length of the income verification was greater than or equal to 24 months. If multiple documentation types are used to verify income for multiple borrowers on a loan, we typically use the weaker documentation type in our analysis. For example, if a loan with multiple borrowers had one borrower's income verified using WVOE while the other borrower's income was verified using P&L statements, we would classify the documentation type as alternative.

Income on certain mortgage loans (37.28% by pool balance) was verified using alternative methods (e.g., P&L or 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 from 1.75x to 2.00x to the foreclosure frequencies, depending on the length of income verified. There are 189 loans categorized as alternative documentation, of which 165 were originated using third-party prepared P&L statements and 24 were originated using business bank statements.

The remaining loans in the pool (39.64% by pool balance) were underwritten using other documentation standards and are DSCR or non-DSCR property-focused investor loans whereas one loan is qualified using asset depletion. We classified these loans as other documentation loans and applied a 3.15x-6.00x adjustment to the foreclosure frequencies.

Property cash flow underwriting

The DSCR loans (approximately 39.56% by pool balance, including non-DSCR no-ratio program

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loans) are underwritten using a DSCR generally calculated as rental income divided by mortgage payment liability (including taxes and insurance), or as rental income (subtracting taxes and insurance) divided by mortgage payment liability. The weighted average non-zero DSCR was 1.04. By pool balance, 16.77% of the loans were qualified without using this ratio, based on other characteristics such as FICO scores and LTV ratios (see table 4). For these non-DSCR loans, we assumed a DSCR of 0.00.

We consider the strength of the DSCR and apply adjustment factors to the foreclosure frequency with higher factors applied to lower DSCRs and lower factors to higher DSCRs. This foreclosure frequency adjustment factor ranges from 3.15x to 6.00x. The low end of the range (3.15x) was calibrated such that a DSCR loan with a high DSCR (i.e., greater than or equal to 1.27) is treated similarly to a weak, traditionally underwritten investor property (i.e., underwritten to the borrower's income) with less than 12 months of income verification and poor DTI attributes (i.e., where the maximum adjustment factors for full-income documentation and DTI are assumed, all else being equal, given the limited performance history of DSCR loans through an economic cycle). (See table 4.)

The weighted average DSCR adjustment factor for this pool was 2.52x, which we believe adequately addresses the additional risk of DSCR loans that rely on the property cash flow rather than personal income and liabilities.

Table 4

Seller's loan program

	Loan count (no.)	Current balance (%)	S&P Global Ratings' documentation type	Documentation type foreclosure frequency adjustment
Property-focused (business purpose)--non-DSCR program	109	16.77	Other	6.00x
Property-focused (business purpose)--DSCR program	261	22.79	Other	3.15x-6.00x

DSCR--Debt service coverage ratio.

Table 5

Average 'AAA' and 'B' foreclosure frequencies for DSCR and non-DSCR

DSCR	Loan count (no.)	% of balance	Avg. DSCR	Avg. foreclosure frequency (%) ('AAA')	Avg. foreclosure frequency (%) ('B')
DSCR >= 1.27	40	2.69	1.39	46.18	11.04
1 <= DSCR < 1.27	124	10.87	1.08	56.52	13.08
DSCR < 1	97	9.24	0.88	68.00	16.63
Zero DSCR (non-DSCR no-ratio)	109	16.77	--	78.58	19.34

DSCR--Debt service coverage ratio.

QM and ATR standards

The Consumer Financial Protection Bureau (CFPB) issued final regulations for mortgage loans with applications submitted on or after Jan. 10, 2014, specifying the standards for a QM. Based on the

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designation the sponsor provided, the loans are categorized as non-QM/compliant or not covered/exempt (see table 6).

Table 6

Qualified mortgage breakout

QM status	% by pool balance	Loan count (no.)	Weighted average FICO score
QM/non-HPML	0.10	1	772
QM/HPML	0.56	5	781
Non-QM/compliant	48.44	281	744
Not covered/exempt	50.90	438	732

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

Under the ATR rule, the originator and any assignee are jointly and separately liable for certain damages that may be incurred from noncompliance with the rule (see Appendix I of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018). For each loan subject to the rule, we applied an adjustment to loss severities to account for this risk. The data the issuer provided to S&P Global Ratings, including additional fields that validate the loan's QM designation, were reviewed by a due diligence firm (under its scope) to verify that documentation exists to support the QM designation.

Servicer advancing obligations

The servicer must advance delinquent P&I on any delinquent mortgage loan until the loan is either greater than 180 days delinquent (limited P&I advancing/stop-advance loan) or the P&I advance is deemed unrecoverable. If the P&I advancing party fails to advance P&I, the master servicer, Nationstar Mortgage LLC (Nationstar), is obligated to make those advances. If Nationstar fails to make those advances, Citibank N.A., as the paying agent and backup advancer, is responsible for making those advances.

Unlike P&I advances, the servicer must make advances of delinquent taxes and insurance (and other property preservation advances) on any delinquent mortgage loan until the related property is liquidated or the servicer deems the advance to be unrecoverable. We incorporated the limited P&I advancing into our loss severities.

Borrowers with multiple loans

We did not make any additional adjustments to the loss coverage due to borrowers with multiple loans because only 18 borrowers (5.74% by the pool balance) have multiple loans and the combined loss exposure to any one of these borrowers was not materially significant in comparison to the exposure to other single-loan borrowers.

Large-balance loans

Forty-seven loans have balances greater than or equal to $1 million (20.51% by pool balance). (See chart 3.) These loans have a similar credit profile to the overall pool, with a weighted average used FICO score of 748 (higher than 738 for the overall pool) and a weighted average current CLTV ratio of 67.30% (slightly lower than the 67.44% for the overall pool). Our loss coverage estimate (without

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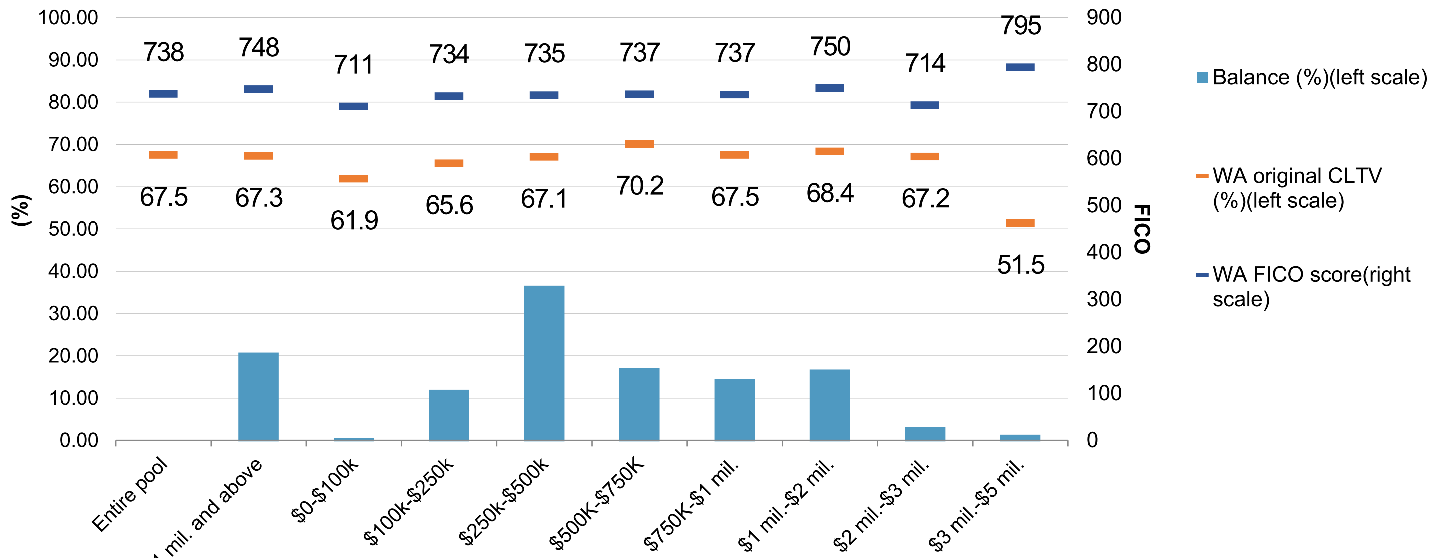
the additional pool level factors) for the high-balance loans is 18.08% at the 'AAA' level, as compared to 25.33% at the 'AAA' level for the overall pool.

Chart 3

Characteristics of loans by cutoff balance



WA--Weighted average. CLTV--Combined loan-to-value.

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Structural Features

Like the last PRKCM transaction, this transaction has a mix of pro rata and sequential structure. Principal is paid pro rata to the class A-1, A-2, and A-3 notes, subject to passing a cumulative loss and delinquency trigger test, and then sequentially to the subordinate classes. In the periods when the cumulative loss or delinquency trigger test fails, principal is first used to pay any unpaid interest and interest carryforward amounts (to the extent not paid from interest remittance amount) sequentially to the class A-1 and A-2 notes, then to pay principal sequentially to class A-1 and A-2 notes, then to pay any unpaid interest and interest carryforward amounts to the class A-3 notes, followed by principal until it is reduced to zero, and then sequentially to the mezzanine and subordinate classes both interest and principal paid to each class before payments to the next class. On each distribution date, the interest (including interest carryforward) amounts otherwise payable to the class B-3 notes will instead be reallocated to pay cap carryover amounts due on the class A-1, A-2, and A-3 notes before making any interest payments to the class B-3 notes (see the payment waterfall in tables 7-10). The B-3 interest amounts thus diverted will not be paid back to the class B-3 notes.

The transaction also uses excess monthly cash flow to cover current-period realized losses and reimburse any previously applied realized loss amounts.

The paying agent will make monthly distributions of interest from the interest remittances and principal from principal remittances (see tables 7-10).

The interest remittance amount includes the following:

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- The interest collected from, or advanced on behalf of borrowers (including interest payments that accompany prepayments, any compensating interest and interest portions of liquidation proceeds minus expenses, subsequent recoveries, termination prices, and repurchase amounts and excluding any default interest) minus aggregate servicing, master servicing, trustee, paying agent, loan data agent, and custodial fees; and
- The servicer advance reimbursements, reimbursable expenses incurred by the controlling holder, and extraordinary expenses, which are generally capped at $450,000 annually.

Although the extraordinary expenses are passed through as reduced contractual interest due to security holders, we ran these expenses at their capped amounts, 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 Analysis section below.

Principal remittance amounts include the principal collected from or advanced on behalf of borrowers (including prepayments, principal portions of liquidation proceeds minus expenses, subsequent recoveries, termination prices, and repurchase amounts) minus aggregate servicing, master servicing, trustee, paying agent, loan data agent, and custodial fees, and extraordinary trust expenses that could not be paid from interest collections.

Table 7

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 notes.
2	An amount up to interest and interest carryforward amount otherwise payable to the class B-3(ii) notes, first, to the extent of any unpaid cap carryover amount(iii) for the class A-1, A-2, and A-3 notes, to the class A step-up cap carryover reserve account, up to the cap carryover amount for the class A-1, A-2, and A-3 notes for such payment date; second, sequentially, from amounts on deposit in the class A step-up cap carryover reserve account, to the class A-1, A-2, and A-3 notes any unpaid cap carryover amounts thereon; and third, to class B-3, any remaining interest and interest carryforward amounts.
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 notes that are deposited into the class A step-up cap carryover reserve account pursuant to clauses two above will not be reimbursed to the class B-3 notes. (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 8

Principal payment waterfall (if the cumulative loss and delinquency trigger tests pass)

Priority	Payment
1	Interest and interest carryforward amounts (to the extent not paid from the interest remittance amount) sequentially, to the class A-1, A-2, and A-3 notes.
2	Principal paid pro rata to the class A-1, A-2, and A-3 notes.
3	Interest and interest carryforward amounts to a subordinate class, and then principal to that subordinate class until the balance is 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).

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Table 8

Principal payment waterfall (if the cumulative loss and delinquency trigger tests pass) (cont.)

Priority	Payment
4	An amount up to interest and interest carryforward amount otherwise payable to the class B-3 notes, first, to the extent of any unpaid cap carryover amount for the class A-1, A-2, and A-3 notes, to the class A step-up cap carryover reserve account, up to the cap carryover amount for the class A-1, A-2, and A-3 notes for such payment date; second, sequentially, from amounts on deposit in the class A step-up cap carryover reserve account, to the class A-1, A-2, and A-3 notes 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 notes, 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 9

Principal payment waterfall (if the cumulative loss or delinquency trigger test fail)

Priority	Payment
1	Interest and interest carryforward amounts (to the extent not paid from the interest remittance amount) sequentially, to the class A-1 and A-2 notes.
2	Principal sequentially to class A-1 and A-2 notes until reduced to zero.
3	Interest and interest carryforward amounts to the class A-3, M-1, B-1, and B-2 notes, 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	An amount up to interest and interest carryforward amount otherwise payable to the class B-3 notes, first, to the extent of any unpaid cap carryover amount for the class A-1, A-2, and A-3 notes, to the class A step-up cap carryover reserve account, up to the cap carryover amount for the class A-1, A-2, and A-3 notes for such payment date; second, sequentially, from amounts on deposit in the class A step-up cap carryover reserve account, to the class A-1, A-2, and A-3 notes 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 notes, 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 10

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 notes, in that order, until each note 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 notes, in that order, until each note 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 notes, in that order, to reimburse the classes applied realized loss amounts previously allocated to them (to the extent the applicable note amount has not been previously written up).

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Table 10

Monthly excess cash flow waterfall (cont.)

Priority	Payment
3	To the cap carryover reserve account, up to the aggregate cap carryover amount for the class A-1, A-2, A-3 notes (and the class M-1 notes if issued on the closing date with a fixed coupon) for that payment date; and then sequentially, from amounts on deposit in the cap carryover reserve account, to the class A-1, A-2, and A-3 notes (and the class M-1 notes if issued on the closing date with a fixed coupon), in that order, any unpaid cap carryover amounts on those classes.
4	To the class XS notes, 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 notes.

Interest on the class A-1, A-2, and A-3 notes is based on the lower of the fixed coupon rate on the notes and the net WAC rate. On each distribution date beginning in June 2027, the class A-1, A-2, and A-3 notes will also receive a step-up note rate of 1.00%, in addition to the applicable fixed coupon at closing, subject to the pool's net WAC. For the class M-1 (if not issued as a fixed rate at the closing date), B-1, B-2, and B-3 notes, the interest rate is equal to the net WAC rate of the pool. The net WAC rate is defined as the annualized weighted average of the mortgage interest rates of the loans (excluding any default interest), net of fees, and extraordinary expenses weighted, based on the loans' stated principal balances. In line with our ratings definitions and criteria, our preliminary ratings address interest payments at the lower of the fixed coupon rate (and the step-up rate, wherever applicable) and the net WAC rate (see, "Guidance: Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published April 17, 2020).

Under the transaction documents, the issuer can defer interest payments on the securities. A failure to pay the interest amounts due on the securities will result in the interest being deferred. Deferred interest (interest carryforward amounts) accrues interest at the lower of the fixed rate (including the step-up rate, wherever applicable) and the net WAC rate for the class A-1, A-2, and A-3 notes, and the net WAC rate for the class M-1 (if not issued as a fixed rate at the closing date), B-1, B-2, and B-3 notes. Our preliminary ratings on the classes address the P&I payments (including interest carryforward amounts) by the notes' final maturity date. However, our preliminary ratings do not address the payment of cap carryover amounts (i.e., the difference between the fixed coupon and the net WAC cap, where the fixed coupon exceeds the net WAC), which are subordinated in the payment priority. In our view, neither the notes' initial coupons nor the initial net WAC rate 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 for imputed promises, we do not consider whether these cap carryover amounts are paid in our cash flow analysis.

The subordinate classes are paid principal sequentially after all senior classes have been retired. 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 provided by the subordinate classes in this transaction does not deplete because no principal payments are made to a mezzanine or subordinate class unless it is the most senior class outstanding.

In this transaction, the principal is paid pro rata among the senior classes from the start and there is no specific credit enhancement floor that would switch the payment priority of the senior classes to sequential. We believe the transaction is adequately enhanced for the assigned

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preliminary ratings, also considering any tail-risk situations (see the Large Loans And Tail-Risk Considerations section). Though there is no specific credit enhancement floor, due to the sequential payment mechanism to the mezzanine and the subordinate classes, which make up 15.55% of the capital structure and then grows as a percentage of the current balance as the senior classes are paid down, the 'AAA (sf)', 'AA (sf)', and 'A (sf)' preliminary rated classes effectively have a floor of 15.55%, which we believe addresses any tail risk concerns. In addition, the cumulative loss and delinquency triggers (see tables 11 and 12) protect the more-senior classes in tail-risk situations if defaults increase much later in the transaction's life (as stressed by our back-ended default curve) by switching the payment priority among the senior classes to sequential.

Table 11

Cumulative loss trigger event

Distribution date occurring in the following periods	Applied realized loss amounts since closing date (% of the cutoff date pool balance)
June 2023 through May 2026	2.0
June 2026 through May 2027	3.0
June 2027 through May 2028	4.5
June 2028 and thereafter	6.5

Table 12

Delinquency trigger event

Distribution date occurring in the following periods	Six-month average of 60-plus-day delinquent loans plus loans modified in past 12 months (% of the current pool balance)
June 2023 through May 2026	10.0
June 2026 through May 2028	15.0
June 2028 and thereafter	20.0

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

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

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). This pool has a high concentration of loans in California (44.84% by pool balance). The top five CBSAs, account for 40.33% of the aggregate pool balance. Our geographic concentration analysis adjusts for this elevated concentration, and we applied a geographic concentration adjustment factor of 1.03x at the pool level (see table 13).

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Table 13

Geographic concentration

CBSA code(i)	CBSA	State	% by balance
31084	Los Angeles-Long Beach-Glendale	California	16.02
11244	Anaheim-Santa Ana-Irvine	California	8.96
36740	Orlando-Kissimmee-Sanford	Florida	5.33
41884	San Francisco-San Mateo-Redwood City	California	5.16
36084	Oakland-Berkeley-Livermore	California	4.86
Top five	--	--	40.33

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

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 notes exposed to event risk later in the transaction's life (for more information on tail risk in RMBS transactions, see "Older RMBS Transactions Face Increased Tail Risk As Their Pools Shrink," published Aug. 9, 2012).

To mitigate this risk, the transaction documents for a pro-rata structure may provide for a credit enhancement floor, specifying principal payments not be made to subordinate classes if the credit support available to the senior classes falls below a threshold. This transaction does not explicitly provide a credit enhancement floor. However, due to the sequential payment mechanism to the mezzanine and the subordinate classes, which make up 15.55% of the capital structure, the 'AAA (sf)', 'AA (sf)', and 'A (sf)' preliminary rated classes effectively have a floor of 15.55% initially. Because subordination to the senior classes is locked out, the 15.55% 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 the cumulative loss or the delinquency trigger event occurs, the payment priority becomes fully sequential.

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

After considering the enhancement provided in the transaction, the expected paydown of the classes given the partial-sequential pay structure, and the cumulative loss and delinquency triggers, we believe the rated classes will be sufficiently protected from tail risk as the transaction seasons.

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Mortgage Operational Assessment (MOA)

Overview

All the loans in the transaction pool were originated by AmWest.

AmWest

S&P Global Ratings' overall MOA ranking for AmWest is AVERAGE based on a review of its origination process for its residential mortgage loans. The overall ranking reflects an AVERAGE qualitative subranking and an AVERAGE quantitative subranking.

Based on the results of our MOA, the loss coverage adjustment factor for AmWest is 1.00x. We applied this adjustment factor to the AmWest-originated collateral in this transaction and may apply the factor when determining the final projected losses in our ratings analysis of a U.S. RMBS transaction.

Company profile

AmWest is a privately owned mortgage company founded in 1995 (initially as PMAC Lending Services Inc., and rebranded to AmWest in 2016) and headquartered in Brea, Calif. The company originates Federal Housing Administration (FHA); Veterans Administration; USDA; and conventional, conforming residential mortgage loans that adhere to the standards established by the government-sponsored enterprises (Fannie Mae, Freddie Mac, and Ginnie Mae), as well as government agency, prime jumbo, and non-QM loans. The company has a strong presence in California and began expanding its retail and wholesale businesses in 2016. AmWest focuses on third-party originations (wholesale) and retail channels, and retains servicing rights on most of their loan production. As of May 2021, AmWest originated 6.00% of its loans via the retail channel, 93.00% via the wholesale channel, and 1.00% via the correspondent origination channel. The wholesale channel has certain controls, including nondelegated underwriting.

MOA

Our overall AVERAGE ranking reflects our qualitative and quantitative review of AmWest.

Our qualitative review focused on three primary areas regarding AmWest's loan residential production:

- Management and organization, including risk management and financial position;
- Origination process and underwriting, including 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), including delinquencies, early payment defaults, and repurchases.

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

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weaknesses.

AmWest's strengths include:

- An experienced senior management team averaging 27 years of industry experience;
- Detailed policies and procedures;
- Mortgage loan origination through multiple lending channels (wholesale, retail, and correspondent);
- 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 include robust pre- and post-funding QC and compliance functions;
- Use of an independent vendor for its post-funding reviews for at least 10.00% of the originated loans (currently 100% of its non-QM production is reviewed post funding);
- Internal audits of about 10.00% of the originations that are reviewed by the third-party auditor;
- No material findings on its internal audit and pre- and post-funding QC reports; and
- Servicing retention on most of its total originated loan production (including a 100% servicing retention on its non-QM production).

However, these strengths are partially weighed down by potential weaknesses:

- There is no formal independent risk management function. However, AmWest has a senior-level cross-functional team that oversees the company's risk and product development initiatives.
- Certain hires have limited tenure with the company (albeit with significant industry experience) following the company's expansion through its product lines and national footprint.
- A majority of the firm's operating functions (56.00% by headcount), including underwriting, is performed offshore. The majority of offshore personnel are on the West Coast of Mexico. However, the company has a robust training program for its offshore employees (i.e., those who receive a W-2) and has procedures to monitor the underwriting process.
- Loan production is highly concentrated in California. We expect this to decrease over time as AmWest continues to acquire licenses to originate mortgage loans in several states and diversify its origination.

Our AVERAGE quantitative subranking is based on our review of historical loan performance data provided by AmWest and information from external sources. We compared it with the performance of other conforming, government, and non-QM residential mortgage loan originations from like vintages to arrive at our opinion.

We reviewed the loan performance of AmWest's 2019 and 2020 originations that were included in various non-QM securitizations rated by S&P Global Ratings. We also reviewed performance information provided by AmWest on its loans. The company's delinquencies were in line with those of its industry peers.

We also reviewed the company's two-year FHA compare ratio for serious delinquencies. While AmWest's overall performance has been better than the U.S. average for the majority of the 12 quarters ending on March 31, 2021, it has certain periods of below-average performance

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(although we note these results may be skewed because of low loan volumes in certain quarters).

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

MOA adjustment factor

Overall, we applied a total MOA loss coverage adjustment factor of 1.00x for the pool.

Third-Party Due Diligence Review

The third-party due diligence provider, Clarifii, Canopy, and Clayton Services LLC, is on our list of reviewed providers and performed due diligence on 100% of the pool's loans. The reviews encompassed credit (underwriting) compliance, property valuations, regulatory compliance (where applicable), and data quality.

All loans fell within the scope of the TILA-RESPA Integrated Disclosure (TRID) rule. For these loans, the third-party due diligence provider followed the Structured Finance Assn. RMBS 4.0 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). Based on our criteria, we adjust our loss expectations based on our view of the firm's findings (see Appendix III of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018).

All loans received final credit, compliance, and valuation grades (where applicable) of 'A' or 'B'.

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

R&Ws

The collateral pool consists of loans from one originator, AmWest, which, as seller, sold the loans to the depositor. AmWest, as seller, is pledging R&Ws to the trust with no backstop from the sponsor. The seller may be financially unable to repurchase loans if the need arises. The R&W framework in this transaction is consistent with those used in comparable non-QM transactions rated by S&P Global Ratings. However, we consider it to be weak because the controlling holder (the majority owner of the class XS notes and, initially, the seller) has the option (and not the obligation) to test for R&W breaches on loans that realized a loss (other than any loans subject to losses related to an ATR claim). ATR notice loans are automatically reviewed for R&W breaches. If a loan was judicially determined to have a TRID finding, it must be cured or repurchased without testing.

Our review of the R&Ws focused on whether the representations made by AmWest were substantially consistent with the set of representations we published as part of our criteria (see Appendix IV of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018). In addition, our review of the R&W framework accounts for automatic review triggers, knowledge qualifiers, gap periods, sunset provisions, and enforcement mechanisms. We evaluated the strength of the R&W framework and considered whether any breach could have a materially adverse impact on the interests of the transaction's security holders. If the R&Ws and the framework 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 considered the R&W providers' ability to fulfill their obligations in the

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event of a breach.

The R&Ws are generally consistent with our published criteria (see "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018) and will remain in effect for the transaction's life. However, given that the statute of limitations under New York law for R&W claims is generally expected to be six years from the date a representation is made, there is effectively an expiration date on the R&Ws. Several representations were knowledge-qualified without any curative language provided. The early payment default covenant is similar to the standard described in our criteria, which calls for the originator to repurchase a mortgage loan when the borrower fails to make any of the first three monthly payments due--unless it concludes that the delinquency occurred because of a servicing issue that has subsequently been corrected.

The seller must appropriately remedy any ensuing R&W breach if it has a materially adverse impact on the loan by curing the breach, repurchasing the mortgage loan at the repurchase price, or substituting for the mortgage loan, including paying any required substitution adjustment amount. The enforcement mechanism for R&W breaches includes provisions for a breach review at the option of the controlling holder either by a third-party due diligence firm or by the controlling holder itself for any loan that experiences a realized loss (other than any loans subject to losses and an ATR claim). A review is mandatory only for an ATR-related realized loss. If the controlling holder declines to review a loan that sustained losses or concludes upon review there was no breach of R&W, noteholders constituting 25.00% or more of the outstanding note balance (review triggering noteholders) may direct a review of such loans for breaches.

Dispute resolutions are ultimately subject to arbitration proceedings, if necessary, to determine if a breach has occurred. For successful repurchase claims, reasonably incurred costs and expenses related to the breach enforcement framework will be incorporated into the repurchase price. If the seller refuses to comply with the arbitrator's determination, the trustee can bring legal action.

As the seller may have limited repurchasing ability, we applied a 1.10x loss coverage adjustment to compensate for the risk associated with the financial capacities of the seller, in addition to the weaknesses of the R&W framework and certain R&Ws having knowledge qualifiers. We believe this adjustment is appropriate in the context of the due diligence performed on the loans and the collateral's 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 tables 14 and 15). We analyzed various scenarios for each rating category/level, including combinations of:

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

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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 14

Cash flow assumptions

	Scenario					
	'AAA'	'AA'	'A'	'BBB'	'BB'	'B'
Recovery lag (mos.)	24	24	24	24	24	24
Prepayments (%)(i)						
Low CPR	1.00	2.00	3.00	4.00	5.00	6.00
High CPR	20.00	20.00	20.00	20.00	20.00	20.00
Scenario: Standard delinquency curve for testing triggers without cash flow stress	--	--	--	--	--	--
Extraordinary trust expenses (% of capped amounts)(ii)	100.00	100.00	95.00	40.00	30.00	17.50
Foreclosure frequency (%)	47.64	42.17	34.14	26.36	18.60	11.09
Loss severity (%)	60.24	52.88	40.71	33.00	27.15	21.64
Loss coverage (%)	28.70	22.30	13.90	8.70	5.05	2.40

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

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 aggregated by a reviewed aggregator, are subject to third-party due diligence, and include structural considerations, such as pro rata principal allocations among senior classes and partial 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 we observed some periodic missed interest due to the liquidity stress associated with limited advancing. To pass our applicable rating-specific stresses, the interest carryforward amounts resulting from any missed interest payments on the securities must be paid in full by the maturity date. All carry-forward 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.

The preliminary rated classes passed the rating stress scenarios commensurate with their assigned preliminary ratings in our cash flow analysis.

Table 15

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)	61.70	38.30	28.70	9.60
A-2	AA (sf)	10.45	27.85	22.30	5.55
A-3	A (sf)	12.30	15.55	13.90	1.65
M-1	BBB (sf)	5.40	10.15	8.70	1.45

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Table 15

Structural assessment (cont.)

Class	Rating	Initial class size (%)	Initial credit enhancement (%)	Loss coverage (%)	Percentage point difference between credit enhancement and loss coverage
B-1	BB (sf)	3.85	6.30	5.05	1.25
B-2	B (sf)	3.15	3.15	2.40	0.75
B-3	NR	3.15	0.00	N/A	N/A

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

Servicer stop advance stresses

Although the transaction documents provide for up to six months of P&I advance obligation, we assumed that no P&I advances were being made in our cash flow projections. This assumption results in no projected monthly cash flows on defaulted loans that have not yet been liquidated (we assume a 24-month lag between default and liquidation). Our cash flow projections consider this additional liquidity stress and the transaction's ability to make monthly interest payments and, if necessary, deferred interest payments (interest carryforward amounts) by the final payment 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 0.75%.

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 noteholders by reducing their interest payments by the amount of the extraordinary trust expenses paid (subject to the annual cap). Although the extraordinary trust expenses are passed through as reduced contractual interest due to noteholders, we ran these expenses to test any impact on the securities due to the dependence on excess spread as a form of credit enhancement to the securities and the presence of certain structural features, such as limited P&I advancing, and because interest payments on the securities are deferrable. We applied the extraordinary expense application factors as listed in table 14 (which vary by rating level) to the capped extraordinary expense amounts. The amounts were applied monthly between periods 13 and 60

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(four years).

Imputed Promises Analysis

We impute the interest owed to the security holders 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 that credit-related loss to the available credit support, based on our loan modification guidance, "Guidance: Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Dec. 8, 2020. WAC deterioration that occurs because of defaults, repurchases, or prepayments is either already accounted for in our loss expectations or not considered credit-related; therefore, it is not considered as part of this analysis.

Because this transaction provides for credit-related loan modifications and extraordinary trust expenses to reduce the net WAC at which the transaction's bond coupons are capped, we applied the approach outlined in the guidance to assess the maximum potential rating (MPR) that could apply, based on our projected interest reduction amount (PIRA). Our cumulative interest reduction amount (CIRA) only considers a reduction in a loan's interest rate post securitization since any modified rate at the time of securitization cutoff is the rate considered in our analysis. Therefore, the CIRA for our analysis was zero.

Consistent with our guidance, we assumed that 50.00% of the non-modified loans in the pool that are projected to default under the applicable rating stress scenario 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 notes that is below the 4.50% threshold. We stressed extraordinary trust expenses by the relevant extraordinary expense application factor (see table 14) 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, 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. Based on the criteria, we cap the ratings on a transaction if we believe operational risk could lead to credit instability and affect the ratings.

The criteria provide three possible rankings for severity and portability risks: high, moderate, or low. For disruption risk, there are four possible rankings: very high, high, moderate, or low. The rankings for each risk 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.

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

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