Presale:

Ellington Financial Mortgage Trust 2021-1

February 17, 2021

Preliminary Ratings

Class	Preliminary rating(i)	Class type	Initial interest rate (%)(ii)	Preliminary amount ($)	Credit enhancement (%)(iii)
A-1	AAA (sf)	Senior	Fixed	188,702,000	25.05
A-2	AA (sf)	Senior	Fixed	13,470,000	19.70
A-3	A (sf)	Senior	Fixed	28,324,000	8.45
M-1	BBB (sf)	Mezzanine	Fixed	9,442,000	4.70
B-1	BB (sf)	Subordinate	Fixed	6,797,000	2.00
B-2	B (sf)	Subordinate	Fixed	3,777,000	0.50
B-3	NR	Subordinate	Net WAC	1,258,835	0.00
A-IO-S	NR	Excess servicing	(iv)	Notional(v)	N/A
X	NR	Monthly excess cash flow	(vi)	Notional(v)	N/A
R	NR	Residual	N/A	N/A	N/A

This presale report is based on information as of Feb. 17, 2021. 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. Coupons are subject to the pool's net WAC. Class B-3 equal to net WAC. (iii)This credit enhancement is solely from subordination. Excess spread also provides credit enhancement. (iv)Excess servicing strip minus compensating interest and advances owed to the servicer. (v)Notional amount equals the loans' aggregate stated principal balance. (vi)Excess of the interest accrued at net WAC rate on the mortgage loans over the aggregate interest accrued at the respective pass-through rates on the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates plus any deferred balance amounts and prepayment premiums. WAC--Weighted average coupon. NR--Not rated. N/A--Not applicable.

Profile

Expected closing date	Feb 24, 2021.
Cut-off date	Feb 1, 2021.
Distribution date	The 25th of each month, or the next business day, beginning March 25, 2021.
Final scheduled payment date	Feb. 25, 2066.
Certificates' amount, including unrated classes	$251.8 million in aggregate.

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Profile (cont.)

Collateral type	First-lien, fixed- and adjustable-rate fully amortizing residential mortgage loans (some with an interest-only period), secured primarily by single-family residential properties including townhomes, planned-unit developments, condominiums, and two- to four-family residential properties to both prime and nonprime borrowers. The pool has 487 loans, which are either non-qualified mortgage (non-QM/ATR compliant) or ATR-exempt mortgage loans.
Collateral	U.S. residential mortgage loans.
Credit enhancement	For each class or rated certificate, subordination of the certificates that are lower in the payment priority and excess spread.

Participants

Issuer	Ellington Financial Mortgage Trust 2021-1.
Sponsor and servicing administrator	EF Holdco WRE Assets LLC.
Depositor	EF Mortgage Depositor II LLC.
Master servicer, securities administrator, certificate registrar, and custodian	Wells Fargo Bank N.A.
Servicer	Rushmore Loan Management Services LLC.
Trustee	Wilmington Savings Fund Society FSB.
Originator	LendSure Mortgage Corp., contributing 99.95% of the pool balance, and one other originator contributing 0.05% by balance

Primary Originator Making Up More Than 10% Of The Collateral

Entity	By balance (%)	Due diligence (%)	Originator ranking
LendSure Mortgage Corp.	99.9	100.00	N/A

Servicers

	By balance (%)	S&P Global Ratings' select servicer	Operation	Originators
Rushmore Loan Management Services LLC	100.00	Yes	Primary servicer	All loans
Wells Fargo Bank N.A.	100.00	Yes	Master servicer	All loans

Rationale

The preliminary ratings assigned to Ellington Financial Mortgage Trust 2021-1's (EFMT 2021-1's) $251.8 million mortgage pass-through certificates reflect our view of:

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

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- The mortgage aggregator, Ellington Financial Inc. (Ellington);
- The impact that the economic stress brought on by COVID-19 is likely to have on the performance of the mortgage borrowers in the pool (for additional information see "Economic Research: Staying Home For the Holidays," published Dec. 2, 2020) and liquidity available in the transaction.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Overview

EFMT 2021-1 is Ellington's seventh RMBS transaction and the first under the EFMT nonqualified mortgage (non-QM) shelf for the year.

Noteworthy Features

No loans currently in forbearance at closing:

On March 31, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted COVID-19 pandemic-related relief for borrowers with government-backed mortgage loans in the form of a temporary forbearance of up to 12 months of scheduled payments. While non-agency loans do not fall under the CARES Act as it relates to this forbearance, servicers have been granting forbearance plans to non-agency borrowers also, typically with some variations to those of the CARES Act (e.g., timeframe, approval requirements, etc.). The updates we made on April 17, 2020, to our mortgage outlook and corresponding archetypal foreclosure frequency levels (see "Guidance: Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published April 17, 2020) account for a portion of borrowers entering COVID-19 pandemic-related temporary forbearance plans and their impact to the overall credit quality of collateralized pools. The guidance document reflects a revision to our 'B' (base case) projected foreclosure frequency assumption for an archetypal loan to 3.25% from 2.50%. To the extent a securitization pool exhibits growth levels in forbearance over time beyond those otherwise expected, additional adjustments may be applied.

As of the cut-off date, no borrower of any mortgage loan in the pool is currently in a COVID-19 pandemic-related forbearance plan. However, five borrowers had previously entered a forbearance plan, and the related borrowers had exited the plan and fully reinstated via lump-sum payment prior to the cut-off date. While we recognize that temporary forbearance related to the COVID-19 pandemic could be granted at some level in the pool going forward, we determined not to apply an additional pool-level loss adjustment factor because no mortgage loan were in active forbearance plan as of the cut-off date and there was an immaterial number of loans that were in prior-forbearance that had since then fully reinstated. We will continue to monitor the credit

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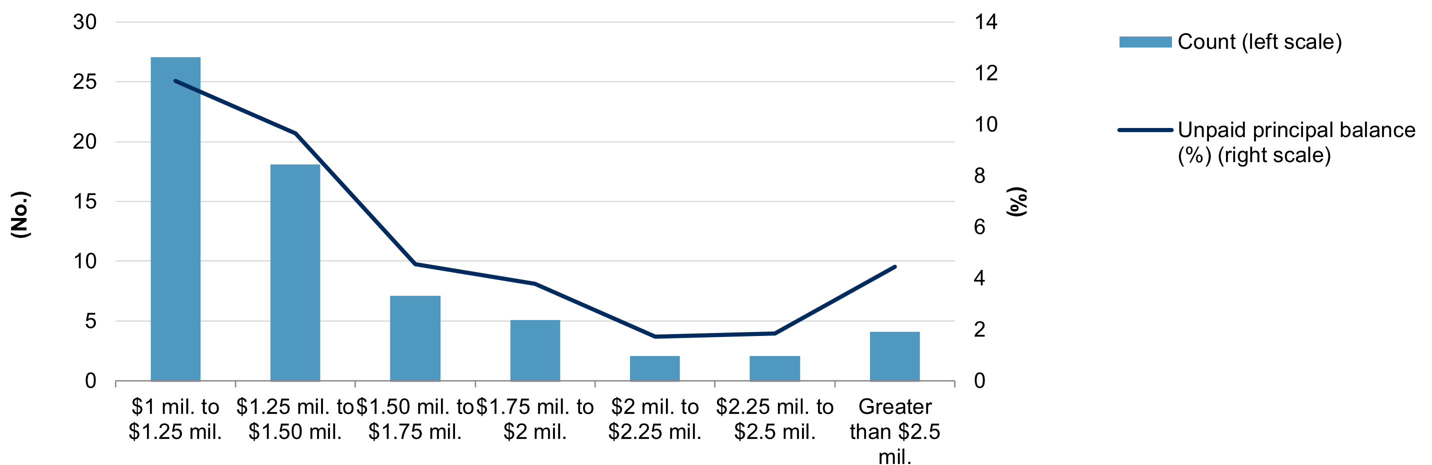
behavior related to temporary forbearance as the situation evolves and more performance information becomes available, and may adjust our loss coverage levels accordingly, which could impact the ratings.

High number of large balance loans:

Sixty-five loans (13.3% by loan count) have balances greater than $1 million in the pool. Together, these loans make up 37.7% of the pool balance.

From a FICO-LTV perspective, these loans have a slightly better credit profile than the overall pool. These loans have a weighted average used LTV of 72.3% and a weighted average used FICO of 737, as compared to the overall pool which has weighted average used LTV of 72.3% and weighted average used FICO of 728. As a consequence, our loss coverage estimates for the high-balance loans is 13.9% at the AAA level, as compared to 18.0% 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 Consideration section) and concluded no additional loss coverage adjustment was needed to account for the potential risk posed by large loans.

Chart 1



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Servicer advancing and 35% delinquency stress:

We applied a delinquency stress to test the transaction's liquidity due to the limited nature of P&I advancing and because advancing is not required on a loan while it is in a state of temporary forbearance due to COVID-19-related hardships. We assumed that 35.00% of the cut-off loan balance would be in forbearance (and noncash flowing) for the first six months of the transaction, with any P&I payments related to this delinquent portion coming back to the transaction after all defaults have been passed through to the transaction (approximately 144 months).

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Monthly excess cash flow used to reduce losses:

Like other nonprime RMBS transactions, EFMT 2021-1 has a structure that pays monthly interest distributions from interest remittances (and from principal remittances, to the extent not paid from interest remittances) and monthly principal distributions from the principal remittances; after which, monthly excess cash flow is used to cover current period realized losses and reimburse any previously applied realized loss amounts.

Collateral Summary

EFMT 2021-1's assets consist primarily of fixed-rate and adjustable-rate fully amortizing non-QM loans secured by first liens. The mortgage pool comprises 487 mortgage loans with a principal balance of approximately $251.8 million as of the cut-off date.

The collateral pool, from a credit perspective, is weaker than the S&P Global Ratings' archetypal prime pool, but is generally in line with our expectations of a nonprime residential mortgage pool (see table 1). The pool's 'AAA' loss coverage requirement was determined to be 19.80%. In our analysis, we considered the following mortgage loan characteristics to be weaker (see the Strengths and Weaknesses section):

- Alternative income documentation on loans;
- Rental property cash flow-based underwriting (DSCR) on loans;
- Non-QM and QM/ATR exempt loans;
- Loans to non-permanent resident aliens or foreign national borrowers;
- Occupancy status (second home, investor property);
- Self-employed borrowers;
- Loan term (term to maturity greater than 30 years);
- Loan type (adjustable-rate mortgage [ARM] loans and interest-only term features); and
- Loan purpose (cash-out refinances).

A majority of the loans have 30-year original terms to maturity, and the pool's weighted average seasoning is approximately three months. Fully amortizing ARM loans make up 1.8% of the pool by balance, and fixed-rate mortgage (FRM) loans make up the remaining 98.2% of the pool by balance. 24.6% of the loans are FRM loans with an interest-only period, while 0.6% are ARM interest-only loans.

The mortgage pool has a weighted average current combined loan-to-value (CLTV) ratio of 72.1%. The weighted average FICO score for the collateral pool is 728, which includes certain S&P Global Ratings assumptions (see table 1 for a breakdown of the pool by borrower FICO score). In the pool, there are 45 loans to foreign borrowers without a FICO score. We assessed these loans in our credit analysis using a FICO score of 685, which is approximately the mortgage pool's average FICO score minus one standard deviation. For the 54 loans to foreign borrowers (6.9% by balance), including the 45 without FICO scores, we applied a 1.5x multiple to the foreclosure frequencies.

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Table 1

Updated Credit Score Statistics

FICO score	Current balance (%)	No. of loans	Average current balance (000s $)
750+	36.4	168	545.1
725-749	16.0	71	566.3
700-724	18.5	80	580.7
675-699	19.3	112	433.4
650-674	5.2	27	481.1
625-649	3.5	19	467.0
600-624	0.5	6	194.7
575-599	0.3	1	644.8
550-574	0.5	3	436.8
Below 550	-	-	-
Total	100.0	487	517.0

Mortgage loans backed by properties that are primary residences make up approximately 70.1% of the pool by balance. Of the pool balance, 49.1% of the mortgages are backed by single-family residences, 36.7% are backed by planned-unit developments, 9.5% are backed by condominiums, and 4.7% are backed by two- to four-family homes (see table 1 below).

Table 2

Collateral Characteristics

	EFMT 2021-1	EFMT 2020-1	EFMT 2019-2	EFMT 2019-1	EFMT 2018-1	Archetypal pool(i)
Closing pool balance (mil. $)	251.8	259.3	267.3	226.9	232.5	N/A
Closing loan count (no.)	487	648	613	497	510	N/A
Avg. loan balance ($)	516,983	400,113	435,979	456,566	455,917	N/A
WA original CLTV (%)(ii)	72.4	69.7	68.5	67.9	69.0	75
WA current CLTV (%)(ii)	72.1	69.3	67.1	67.4	68.0	75
WA FICO (iii)	728	709	707	712	710	725
WA current rate (%)	5.74	5.79	6.2	6.2	6.3	N/A
WA original term (mos.)	388	373	372	373	364	360
WA seasoning (mos.)	3	4	9	4	5	0-6
WA debt-to-income (%)	33.6	36.7	37.3	37.2	36.6	36
WA DSCR (non-zero)	1.27	1.24	1.15	1.09	0.87	N/A
Owner occupied (%)	70.1	69.5	69.1	72.6	76.1	100
Single-family (including townhouse, unattached and attached PUD) (%)	85.8	83.2	85.1	84.3	91.0	100
Adjustable-rate loans (%)	1.8	62.5	80.8	63.3	72.4	0
Loans with IO payments (%)	25.1	14.7	15.0	15.9	4.2	0
Purchase (%)	81.5	60.3	59.2	52.1	60.0	100
Cash-out refinancing (%)	13.5	28.1	32.5	39.2	32.3	0

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Table 2

Collateral Characteristics (cont.)

	EFMT 2021-1	EFMT 2020-1	EFMT 2019-2	EFMT 2019-1	EFMT 2018-1	Archetypal pool(i)
Full documentation (%)	31.6	37.1	32.3	31.9	35.8	100
Alternative/bank statement documentation (%)	52.0	46.3	61.2	60.2	59.0	0
Other/asset depletion/DSCR documentation (%)	16.4	16.7	6.6	7.9	5.2	0
Self-employed borrowers (%)	69.1	62.1	74.0	65.0	73.0	0
Loans with co-borrowers (%)	41.8	39.2	38.6	39.9	40.0	0
Loans to borrowers with multiple mortgages (%)(iv)	5.2	6.7	7.0	9.9	9.4	N/A
Loans to foreign borrowers (%)(foreign national and non-permanent resident aliens)	6.9	8.6	6.6	8.8	3.6	0
Modified loans (%)(v)	0	0	0	0	0	0
PCEs (%)(v)	0	1.8	0.6	1.3	2.8	0
Current (%)	100	100(vi)	100	100	100	100
30+ day delinquent (%)	0	0(vi)	0	0	0	0
Length of P&I Advancing (mos.)(vii)	6	6	6	6	6	Full
Pool-level adjustments (multiplicative factors)						
Geographic concentration	1.00	1.00	1.02	1.03	1.05	1.00
Mortgage operational assessment	1.00	1.00	1.00	1.00	1.00	1.00
Representations and warranties	1.10	1.10	1.05	1.05	1.05	1.00
Other (i.e. loan modification/PCE/due diligence)	1.00	1.03	1.01	1.02	1.04	1.00
Loans in forbearance/forbearance review	1.00	1.10	N/A	N/A	N/A	0.00
Combined pool-level adjustments(viii)	1.10	1.30	1.08	1.10	1.15	1.00
Loss estimation						
'AAA' loss coverage (%)	19.80	26.15	22.35	22.60	21.20	7.50
'AAA' foreclosure frequency (%)	38.73	48.32	44.41	44.12	39.72	15.00
'AAA' loss severity (%)	51.12	54.12	50.33	51.22	53.37	50.00
'BBB' loss coverage (%)	6.60	9.00	7.10	7.05	6.55	1.92
'BBB' foreclosure frequency (%)	21.10	26.70	22.65	22.58	19.90	6.41
'BBB' loss severity (%)	31.28	33.71	31.35	31.22	32.91	30.00
'B' loss coverage (%)	2.00	2.80	1.75	1.75	1.60	0.65
'B' foreclosure frequency (%)	8.67	11.26	7.71	7.90	6.74	3.25

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Table 2

Collateral Characteristics (cont.)

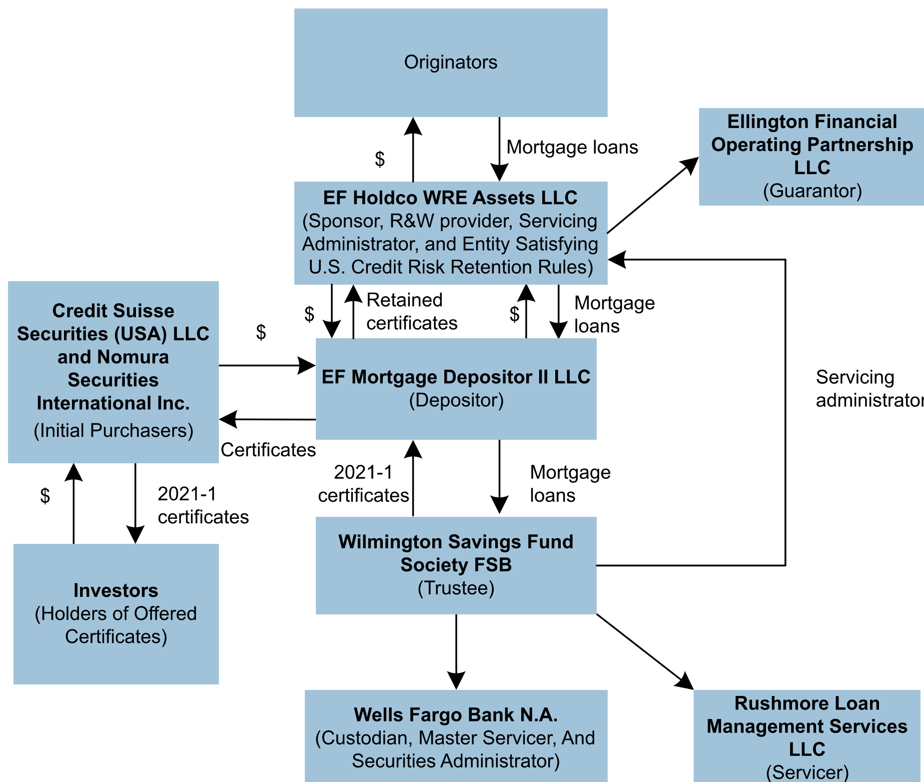
	EFMT 2021-1	EFMT 2020-1	EFMT 2019-2	EFMT 2019-1	EFMT 2018-1	Archetypal pool(i)
'B' loss severity (%)	23.07	24.87	22.70	22.15	23.74	20.00

(i)As defined in our Feb. 22, 2018, criteria article. (ii)Reflects certain adjustments to appraisal values (iii)FICO incorporates the most recent scores obtained. For EFMT 2021-1, we assumed 685 for foreign borrowers who are missing FICO scores. (iv)Limited to borrowers who have multiple mortgage loans or properties included in the securitized pool. (v)Limited to modified and PCE loans considered in our analysis. (vi)Loans in forbearance are treated as current and included in the above the model forbearance adjustment. (vii)Months of P&I advancing on a delinquent mortgage loan to the extent such advances are deemed recoverable. (viii)Combined pool-level adjustments are the product of each pool-level adjustment listed above. CLTV--Combined loan to value. WA--Weighted average. PUD--Planned-unit development. IO--Interest only. DSCR--Debt service coverage ratio. P&I--Pprincipal and interest. PCE--Prior credit event.

Transaction Structure

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

Chart 2



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The transaction is structured as a true sale of the receivables from the sponsor (EF Holdco WRE Assets LLC) to the depositor (EF Mortgage Depositor II LLC) and pledge from the depositor to the issuing trust (EFMT 2021-1). The issuing trust transfers the certificates to the depositor. The depositor will sell the offered certificates to the initial purchasers, who will sell them to third-party investors. The depositor will sell the non-offered certificates, as well as the certificates required to be held to satisfy the risk retention rules, to the sponsor.

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

Strengths And Weaknesses

We believe the following characteristics strengthen the EFMT 2021-1 transaction:

- The mortgage pool generally consists of loans to borrowers with considerable home equity, as demonstrated by the pool's weighted average original CLTV ratio of 72.4%.
- The third-party due diligence providers—Evolve Mortgage Services LLC (Evolve), Covius Real Estate Services LLC (Covius), and AMC Diligence LLC (AMC), which is on our list of reviewed providers--performed due diligence on 100% of the pool's loans with not material findings. Their review encompassed regulatory compliance, credit (underwriting) compliance, property valuations, and data quality.
- The class A-1, A-2, and A-3 certificates (the senior classes) benefit from a credit support floor where no principal is paid to the subordinate classes until the class A certificates are retired. Additionally, principal will be paid sequentially among the A-1, A-2, and A-3 classes in periods when the cumulative loss or delinquency trigger has tripped, further protecting the more senior classes.

We believe the following factors weaken the EFMT 2021-1 transaction:

- Income on certain mortgage loans (52.0% by balance) was verified using alternative methods, such as personal or business bank statements or CPA letters. We consider income verification using alternative methods to be a weaker standard than "full" documentation of income. Consequently, we increased our loss coverages for these loans by applying an adjustment to the foreclosure frequencies. We applied an adjustment factor of 2.00x, and 1.75x to the foreclosure frequencies for loans using 12-23 months, and at least 24 months of alternative income verification, respectively.
- Certain loans were underwritten to a cash flow investment property program (9.7% by balance) using debt service coverage ratios (DSCRs) ranging from 0.73 to 2.72. We applied an adjustment factor ranging from 3.15x to 5.48x to the foreclosure frequencies for these loans depending on the DSCR.
- Income on certain mortgage loans (6.7% by balance) was verified using asset depletion or partial asset depletion. We applied an adjustment factor of 3.00x to the foreclosure frequencies for these loans.
- Certain loans (29.2% by balance) were made to borrowers with current FICO scores below 700. The loss estimate of the mortgage pool has been increased to account for the increased default risk of these loans.
- The majority of loans were made to borrowers who are self-employed (69.1% by balance). Per our criteria, where applicable, we applied a 1.10x factor to the foreclosure frequencies for these loans.

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- The transaction has a high percentage of interest-only (IO) loans, which comprise about 25% of pool balance. Most of these loans have an original term of 40 years. We applied an adjustment factor of 1.25x to the foreclosure frequencies of these loans due to their IO feature and an additional 1.3x factor to those loans that had 40-year terms.
- Non-qualified mortgage loans, which have an increased risk of ability-to-repay (ATR) challenges and associated losses, make up 78.6% of the pool by balance. We applied an adjustment to loss severities per our criteria to account for this risk.
- The loan purpose on 13.5% of loans by balance is cash-out refinance, with an average cash-out amount of approximately $210,724; 21 loans have cash-out amounts greater than $200,000.
- Loans to foreign national and nonpermanent resident alien borrowers represented 54 loans (6.9% by balance). We applied a 1.5x factor to the foreclosure frequencies for these loans.
- As of Feb. 1, 2021, no loans in the pool were subject to an active COVID-19 pandemic related forbearance plan. However, five mortgage loans in the pool, representing approximately 1.06% of the pool balance, have been granted forbearance previously, but each of the five loans exited forbearance and fully reinstated prior to the cut-off date without repayment plan, modification or deferral. We applied a rounded neutral forbearance related adjustment to the loss estimate of the pool.
- The sponsor makes the R&Ws, and the guarantor (Ellington Financial Operating Partnership LLC), who is an unrated entity and an affiliate of the sponsor, will backstop the sponsor's repurchases. A few representations have certain carve-outs that do not cover mortgage loans subject to a COVID forbearance plan, such as a mortgage loan being current or a mortgage loan not being in default, or a breach or violation under the mortgage or mortgage note, which we do not believe adds incremental risk relative to our overall assessment of the R&W framework. The R&W framework is weak because the testing of any breaches (other than any loans showing ATR-related losses) is at the option of the controlling holder (the majority owner of the class X certificates and, initially, the sponsor or an affiliate of the sponsor). In addition, the early payment default (EPD) covenant provided by the sponsor is weaker than what we see in jumbo prime transactions. Third-party due diligence was performed on 100% of the loans, and the sponsor retains no less than 5.00% of the fair market value of all certificates, which mitigates the risks and concerns with the framework. Consequently, we applied a R&W adjustment, which increased our loss expectations at all rating categories by a factor of 1.10x.

Credit Analysis And Assumptions

Our analysis of the EFMT 2021-1 collateral pool considered a number of factors, including certain loan-level characteristics. The details of our analysis are described below.

Documentation type

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

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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)	101	27.23		1.00	21.04
Full (24+ months) WVOE only	16	2.53		1.00	26.70
Full (12-23 months)	5	1.71		1.25	54.51
Full (12-23 months) WVOE only	1	0.11		1.25	19.71
Full (1-11 months)	1	0.06		1.50	57.78
Alternative documentation(i)					
24+ months					
Business bank statements	141	29.77	24	1.75	39.50
Personal bank statements	22	4.50	24	1.75	51.73
Personal and business bank statements	8	2.15	24	1.75	48.80
CPA letters	17	2.39	24	1.75	65.76
12-23 months					
Business bank statements	44	10.03	12	2.00	35.92
Personal bank statements	16	3.14	12	2.00	34.01
Other documentation					
Other (DSCR)	94	9.66		3.15-6.00	59.78
Other (asset underwriting/depletion)	21	6.73		3.00	35.53

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

For 124 loans (approximately 31.6% of the pool balance), traditional (full) documentation was used for fully verifying and calculating the borrowers' qualifying income (e.g. pay stubs, W-2s, personal and business tax returns, IRS transcripts, and written verification of employment). 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. Bank statements or CPA letters were used on 248 mortgage loans (52.0% by balance), with the majority of borrowers using 24 months of bank statements. We view income verification using alternative documentation to be a weaker standard than full documentation of income and, consequently, increased our loss coverages for these loans by an adjustment factor ranging from 1.75x to 2.00x.

Ninety-four loans in the pool (9.7% by pool balance) were underwritten via a lending program that considers investment property cash flow rather than a borrower's verified income. We classified

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these loans as other documentation loans with a DSCR flag and applied a 3.15x-5.48x adjustment to the foreclosure frequencies based on the provided DSCR that ranged from 0.73 to 2.72.

Twenty-one loans in the pool (6.7% by pool balance) were underwritten, in full or in part, using a lending program that considers accumulated assets rather than a verified income stream. We classified these loans as other documentation loans and applied a 3.00x adjustment to the foreclosure frequencies.

QM and ATR standards

The Consumer Financial Protection Bureau issued final regulations for mortgage loans with applications submitted on or after Jan. 10, 2014, specifying the standards for a QM. The rule applies to all mortgage loans included in this securitization. Per the designation provided by the sponsor, most loans are categorized as non-QM/compliant (78.6% by balance), and the remaining loans were exempt from the QM mortgage loan rule because they are listed as investment properties (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. In addition, as part of our aggregator review of Ellington Financial Inc., we concluded that the aggregator's processes address the ATR risks.

Table 4

Qualified Mortgage Breakout

QM status	Pool balance ($)	% by pool balance	Loan count (no.)	Weighted average FICO
QM/non-HPML	0	0	0	
QM/HPML	0	0	0	
Non-QM/compliant	197,795,070	78.6	308	727
Not covered/exempt	53,975,766	21.4	179	731

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

Servicer advancing obligations

For any loan that is not in forbearance, the servicer, Rushmore Loan Management LLC (Rushmore), must advance delinquent P&I payments on any delinquent mortgage loans until they are deemed non-recoverable or become greater than 180 days delinquent (limited P&I advances). If Rushmore fails to make those advances, Wells Fargo Bank N.A., as the master servicer and securities administrator, 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

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P&I advancing into our loss severities.

In addition, the P&I advancing party is not obligated to advance on loans that are temporarily in forbearance. However, after the forbearance period ends, the P&I advancing party will be required to make P&I advances to the extent the borrower fails to make any required payment of principal and interest that is then due up to a maximum of six missed payments.

Borrowers with multiple loans

Prior transaction performance

Ellington's S&P Global Ratings-rated prior transactions are reporting 60-plus-day borrower delinquencies in the 2% to 6% range. Although the delinquencies remain elevated primarily as a result of the COVID-19 pandemic, 60-plus-day delinquencies have decreased from their peak range of 7%-10%. Credit enhancement for the rated tranches has increased since closing. Elevated prepayments, the resulting bond pay-downs, and declining pool factors are contributing to the elevated delinquency rates and the higher credit enhancement levels (see table 5). We will continue to monitor the related transactions as part of our ongoing surveillance process.

Table 5

Prior Transaction Performance

	EFMT 2019-1	EFMT 2019-2	EFMT 2020-1
Pool factor(i)	0.63	0.71	0.84
Months seasoned from closing (no.)(i)	19	14	8
60-day-plus delinquencies(i) (%)	5.56	5.91	2.05
Modifications(i) (%)	-	-	-
Cumulative net losses (%)(i)	-	-	-
Class A-1 (rated 'AAA') credit enhancement at closing (%)	30.20	29.65	26.10
Class A-1 (rated 'AAA') credit enhancement (%)(i)	35.34	33.23	31.18
Bottom-most rated tranche credit enhancement at closing (%)	0.95	0.90	2.60

(i)Data as of January 2021. EFMT--Ellington Financial Mortgage Trust.

Structural Features

Similar to other non-QM transactions, EFMT 2021-1 uses a structure that has a mix of pro rata and sequential payment priority; principal is paid pro rata among the senior classes (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 the delinquency trigger fails, principal is paid sequentially to class A-1, class A-2, and class A-3.

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

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The transaction also uses excess monthly cash flow to cover current period realized losses and reimburse any previously applied realized loss amounts. This feature allows the class A-3, M-1, B-1, and B-2 certificates to have the initial credit enhancement provided by subordination to be lower than our estimated loss coverage amounts.

The securities administrator will make monthly interest distributions from the interest remittances and principal from the principal remittances (see tables 6, 7, 8, and 9).

The interest remittance amount includes the interest collected from borrowers or advanced on their behalf (including interest payments that accompany prepayments, any compensating interest, and interest portions of liquidation proceeds [net of expenses], and subsequent recoveries and repurchase amounts) minus the aggregate servicing fees, master servicing fees, securities administrator fees, trustee fees, custodial fees, servicer advance reimbursements, and extraordinary expenses, which are generally subject to a $350,000 annual cap. Although the extraordinary expenses are passed through as reduced contractual interest due to certificateholders, we ran these expenses at their capped amounts to stress excess spread as described further in the Interest stresses section below. We also considered the extraordinary expenses when analyzing projected interest reduction amounts, as described further in the Imputed Promises Analysis section below.

Principal remittance amounts include the principal collected from borrowers or advanced on their behalf (including prepayments, principal portions of liquidation proceeds [net of expenses], subsequent recoveries, and repurchase amounts) minus fees, including extraordinary expenses, and servicer advance reimbursements that could not be paid from interest collections.

Table 6

Interest Payment Waterfall

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

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

Table 7

Principal Payment Waterfall (If Trigger Event Tests Pass)

Priority	Payment
1	Interest and interest carryforward amounts (to the extent not paid after allocation of the interest remittance amount) sequentially to classes A-1, A-2, and A-3.
2	Principal concurrently to the classes A-1, A-2, and A-3, pro rata.
3	Interest and interest carryforward amounts to a subordinate class followed by principal to such subordinate class until reduced to zero, paid sequentially to classes M-1, B-1, B-2, and B-3 with both interest and principal paid to a class before payments to the next class (IPIP).
4	Any remaining amounts paid as part of monthly excess cash flows.
IPIP--Interest, principal, interest, and principal.	

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Table 8

Principal Payment Waterfall(If Any Trigger Event Test Fails)

Priority	Payment
1	Interest and interest carryforward amounts (to the extent not paid after allocation of the interest remittance amount) to the classes followed by principal to such class until reduced to zero, paid sequentially to classes A-1, A-2, A-3, M-1, B-1, B-2, and B-3 with both interest and principal paid to a class before payments to the next class (IPIP).
2	Any remaining amounts paid as part of monthly excess cash flows.
IPIP--Interest, principal, interest, and principal.	

Table 9

Monthly Excess Cash Flow Waterfall

Priority	Payment
1	Sequentially to classes A-1, A-2, A-3, M-1, B-1, B-2, and B-3 up to the realized loss amount for the current period.
2	Sequentially to classes A-1, A-2, A-3, M-1, B-1, B-2, and B-3 up to the cumulative applied realized loss amount until each such class is reduced to zero, and then sequentially reimburse class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 certificates for applied realized loss amounts previously allocated thereto.
3	To the cap carryover reserve account, from monthly excess amounts otherwise distributable to the class X certificates, the aggregate cap carryover amount for classes A-1, A-2, A-3, M-1, B-1 and B-2 for that date, and from the cap carryover reserve account, any unpaid cap carryover amounts(i) sequentially to the class A-1, A-2, A-3, M-1, B-1 and B-2 certificates.
4	Amounts due, pursuant to the PSA, to the class X certificates.
5	Reimburse extraordinary expenses in excess of annual caps to the master servicer, securities administrator, certificate registrar, trustee, and the custodian.
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 what was actually due based upon the net WAC rate. Any prior unpaid cap carryover amounts also accrue interest at the fixed coupon. Our preliminary ratings do not address the payment of cap carryover amounts. PSA--Pooling and servicing agreement. WAC--Weighted average coupon.

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

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

Our preliminary ratings, however, do not address the payment of cap carry-over 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

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nor the initial net WAC rates are de minimis, and nonpayment of the cap carryover amounts is not considered an event of default under the transaction documents. Therefore, in line with our criteria for imputed promises, we do not need to consider whether these cap carry-over amounts are paid in our cash flow analysis.

The subordinate certificates are paid principal sequentially after all senior certificates have been paid off. Unlike the credit enhancement seen in shifting-interest residential mortgage-backed securities (RMBS) structures, which may deplete due to scheduled and prepaid principal paid to the subordinate classes, the credit enhancement in EFMT 2021-1 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 are comfortable that the transaction is adequately enhanced for the assigned preliminary ratings, taking into account any tail risk considerations given that the transaction starts with 8.45% enhancement for the senior classes, which then grows as a percentage of the current balance as they get paid down (see the Large Loan And Tail Risk Considerations section). Additionally, the delinquency trigger and cumulative loss rate trigger (see tables 10A and 10B) protect the more senior classes in tail risk situations if defaults were to increase much later in the transaction's life (a back-ended default curve) by switching the payment priority among the senior classes to sequential.

Table 10A

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)(%)
March 2021-February 2024	18.00
March 2024-February 2026	22.00
March 2026 and thereafter	30.00

Table 10B

Cumulative Loss Trigger Event

Distribution date occurring in the following periods	Aggregate realized loss amounts since cut-off date as a % of the cut-off date pool balance
March 2021-February 2024	2.00
March 2024-February 2025	3.00
March 2025-February 2026	4.00
March 2026 and thereafter	7.00

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

Subsequent recoveries on the loans will be distributed as set forth in the principal payment waterfall. Additionally, after the allocation of the principal remittance amount and monthly excess cash flows, if the aggregate principal balance of the mortgage loans exceeds the balance of the certificates, the balances of classes A-1, A-2, A-3, M-1, B-1, B-2, and B-3, sequentially, will be increased up to any realized and applied realized loss amount allocated to that class.

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Geographic Concentration

S&P Global Ratings analyzes the pool's geographic concentration risk based on the concentrations of loans in each of the core-based statistical areas (CBSAs) as defined by the U.S. Office of Management and Budget (see Appendix II of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018). In this transaction, the top five CBSAs account for 29.8% of the aggregate pool. We applied a neutral geographic concentration adjustment factor of 1.00x to our base loss coverage estimate as the pool was geographically diversified.

Table 11

Geographic Concentration

CBSA code(i)	CBSA	State	% by balance
41740	San Diego-Chula Vista-Carlsbad	California	9.65
31084	Los Angeles-Long Beach-Glendale	California	8.92
26420	Houston-The Woodlands-Sugar Land	Texas	4.59
36740	Orlando-Kissimmee-Sanford	Florida	3.40
11244	Anaheim-Santa Ana-Irvine	California	3.25
Top five CBSAs			29.81

(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 classes exposed to event risk later in the transaction's life (for more information on tail risk in RMBS transactions, see "Older RMBS Transactions Face Increased Tail Risk As Their Pools Shrink," published Aug. 9, 2012). To mitigate this risk, certain transactions provide for a credit enhancement floor, specifying principal payments not be made to subordinate classes if the credit support available to the senior classes falls below a threshold. EFMT 2021-1 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 8.45% of the capital structure, the 'AAA (sf)', 'AA (sf)', and 'A (sf)' preliminary rated classes effectively have a floor of 8.45% initially. Although over time subordination can be depleted due to realized losses, the effective floor to the more senior classes can increase when cumulative losses or delinquencies trip the cumulative loss or the delinquency triggers, making the payment priority fully sequential. In our stress rating scenarios, either the triggers tripped, and the transaction went fully sequential or when the senior classes were paid pro rata, the subordination to the senior classes was adequate.

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

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

Mortgage Operational Assessment Review

We conducted a mortgage operational assessment review (MOA) of Ellington and assigned an overall AVERAGE ranking to Ellington after reviewing the company's acquisition process for non-QM residential mortgages. The ranking reflects our AVERAGE qualitative subranking and LIMITED quantitative subranking.

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

Ellington, through its subsidiary Ellington Financial Operating Partnership LLC, operates as a specialty finance company in the U.S. It invests in a diverse array of financial assets, including residential and commercial mortgage-backed securities, residential and commercial mortgage loans, consumer loans and asset-backed securities backed by consumer loans, collateralized loan obligations, corporate equity and debt securities (including distressed debt), nonmortgage and mortgage-related derivatives, equity investments in mortgage-related entities, and other strategic investments. As of Sept. 30, 2020, Ellington had approximately $872 million in total equity. The common shares trade on the New York Stock Exchange under the ticker EFC. Ellington is externally managed and advised by an affiliate of the Ellington Management Group LLC (EMG), which was founded in 1994, is based in Old Greenwich, Conn., and, as of December 2020, has approximately $11.4 billion of assets under management.

Ellington owns approximately 49.9% of LendSure Mortgage Corp.'s (LendSure's) equity and asserts operational and strategic influence. Two of LendSure's five board of director members are EMG employees. The company started acquiring non-QM mortgage loans in July 2015. Approximately 95% of Ellington's purchased loans are LendSure collateral.

Our overall AVERAGE ranking is based on our opinion of the company's knowledgeable and experienced management team; its risk management oversight, including its independent internal audit and compliance functions; its thorough oversight of its seller, LendSure; and its limited non-QM loan performance history at the time of our review.

Our overall ranking reflects our qualitative and quantitative review of Ellington. Our qualitative review is based on our assessment of three primary focus areas for operational reviews. For Ellington, the primary focus areas are management and organization, including risk management and financial position; loan purchase and aggregation, including property valuation process; and internal controls, encompassing operational reviews of originators, pre-purchase data quality, post-purchase quality control, and regulatory compliance. For our quantitative analysis, we reviewed acquisition volume, loan characteristics, and loan performance history, including delinquencies, EPDs, and repurchases for Ellington.

Our AVERAGE qualitative subranking reflects our view of the following strengths:

- An experienced management team, averaging over 20 years of industry experience;
- Oversight by a risk management program, including internal audit and compliance functions;
- A requirement to conduct 100% due diligence (pre-purchase) on all acquisitions, including a full review of credit, compliance, property valuation, and fraud. This is conducted by a third-party due diligence firm that is on S&P Global Ratings' list of reviewed third-party due

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diligence firms;

- Strong oversight over its primary seller, LendSure, which includes two of five seats on the board of directors; and
- Controlled growth.

These strengths are partially offset by the following weakness:

- A short loan performance history as the portfolio has not yet experienced a housing or economic downturn notwithstanding the COVID-19-related economic shock during which the Ellington's non-QM transactions' performance was in-line with our expectations.

Our LIMITED quantitative subranking is based on our review of loan performance data provided by Ellington. The company has limited performance history in the non-QM space, including no acquisitions and no performance data during a housing cycle downturn because it only began acquiring non-QM loans, in limited quantities, in July 2015. Loan growth has been measured.

Ellington's historical delinquencies, EPDs, and repurchases are in line with our expectations for post-crisis non-QM residential originations.

Third-Party Due Diligence Review

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

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

Compliance with underwriting guidelines (credit review)

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

Property valuation review

- All loans except three received a final property valuation review risk grade of 'A' or 'B'. The lower property value was used to calculate the LTV on the loans that were graded 'C'.
- Based on our review of the due diligence firms findings, there is no adjustment to credit enhancement for valuation due diligence.

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Regulatory compliance review

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

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

R&Ws

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 reviewed the R&Ws made by the mortgage loan sellers in this transaction. We evaluated the strength of these R&Ws and considered whether any breach could have a materially adverse impact on the interests of the transaction's certificateholders. If the R&Ws in the transaction documents do not address the issues in our published R&W framework, we will determine whether we believe it is appropriate to assess additional credit enhancement. Lastly, we will consider the R&W providers' ability to fulfill their obligations in the event of a breach.

An affiliate of the sponsor acquired the loans in this transaction from multiple originators. The originators makes R&Ws on the loans, but these are not assigned to the trust and, therefore, were not considered in this analysis. The R&Ws assigned to the trust related to the individual mortgage loans are made by the sponsor. The guarantor will backstop the sponsor's repurchase obligations. R&Ws are provided in the mortgage loan sale agreement, term sheet, and private placement memorandum.

Framework

Upon review of the applicable transaction documents, we have found the R&Ws related to the individual mortgage loans are generally consistent with our published criteria. Knowledge qualifications are limited and do not significantly alter the R&W or remedy. In addition, certain R&Ws as well as the EPD event definition include carve-out language that the representation or covenant does not apply to any mortgage loan subject to a COVID-19 related forbearance plan.

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

For all other loans that incur a realized loss, the controlling holder has the option to perform a review. For loans that are reviewed, the controlling holder has the option to use a third party to perform the review. If the controlling holder does not exercise the option to review, then 25% or more of the certificateholders (in aggregate) may choose to start a review. Relevant parties may

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commence a binding arbitration to resolve disputes.

The guarantor will backstop remedies and repurchases if required. Ellington does not have a securitization repurchase history, but we do note that it has been active in mortgage investing since the 1990s, has significant equity, and has survived two recessions.

Framework assesment

With the exception of TRID-related breaches, the R&Ws are subject to a "material and adverse effect" standard, which can be subjective. We are neutral on the guarantor as they are an unrated entity, are not required to hold a minimum amount of capital and could face liquidity pressures in the COVID-19 economic environment. Except for potential ATR defects, the R&W framework does not call for automatic breach reviews for loans that become severely delinquent or incur a realized loss; a mitigating factor is that 25% or more of the certificateholders may choose to commence a review.

Unless related to servicing issues, a loan that becomes 60 days delinquent within the first three payment periods from origination is considered an EPD and must be repurchased. This definition is weaker than our benchmark EPD of 30 days delinquent; however, it is similar to other non-QM transactions.

In our opinion, the R&W framework is similar to other non-QM transactions. We applied a 1.10x adjustment to our loss coverage estimates to reflect: 1) R&Ws are generally comparable to our benchmark; 2) enforcement mechanisms are weak because they lack automatic reviews on severely delinquent loans and the use of an independent third-party is not required; and 3) a neutral view of the backstop provider to the R&Ws.

Cash Flow And Scenario Analysis

We reviewed the transaction structure and performed a cash flow analysis to simulate various rating stress scenarios (see table 12) to determine the preliminary ratings for each class consistent with our criteria, accounting for the available credit enhancement (see table 13). We analyzed a variety of scenarios for each rating category, including combinations of:

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

Table 12

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

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Table 12

Cash Flow Assumptions (cont.)

		Scenario					
		AAA	AA	A	BBB	BB	B
Scenario 1: Delinquency Curve	Standard delinquency curve for testing triggers without cash flow stresses						
Scenario 2: Delinquency Curve	Delinquencies at 35% for first six months to stress liquidity and triggers followed by standard delinquency curve to test triggers.						
Foreclosure frequency (%)		38.73	34.14	27.52	21.1	14.79	8.67
Loss severity (%)		51.12	46.28	36.88	31.28	27.05	23.07
Loss coverage (%)		19.80	15.80	10.15	6.60	4.00	2.00

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

Table 13

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)	74.95	25.05	19.80	5.25
A-2	AA (sf)	5.35	19.70	15.80	3.90
A-3	A (sf)	11.25	8.45	10.15	-1.70
M-1	BBB (sf)	3.75	4.70	6.60	-1.90
B-1	BB (sf)	2.70	2.00	4.00	-2.00
B-2	B (sf)	1.50	0.50	2.00	-1.50
B-3	NR	0.50	0.00	N/A	N/A

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

Notwithstanding the use of excess interest as credit enhancement in the transaction structure, we applied our usual front- and back-loaded rather than bulleted (e.g. semiannual or annual lump sum) default timing curves in our analysis. This reflects our view of the potential volatility of cash flows given that the newly originated loans are aggregated by a reviewed aggregator and are subject to third-party due diligence, and include structural considerations, such as sequential principal allocations amongst all 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 observed some periodic missed interest due to the liquidity stress associated with no advancing. To pass our applicable rating specific stresses, the interest deferrals (or interest carry-forward amounts) resulting from any missed interest payments on the securities have to be paid in full by the maturity date. All deferred interest was paid back with interest under the applicable rating-specific stresses in our cash flow projections. The results show that each preliminary rated class in the transaction is enhanced to a degree consistent with the assigned preliminary ratings.

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Servicer stop advance stresses

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

To address the potential liquidity stress to cashflows due to loans entering forbearance in light of the current COVID-19 crisis for which the P&I advancing party is not obligated to advance monthly P&I payments, we also applied a delinquency stress curve. We assumed 35.00% of the closing pool balance to be delinquent for the first six months with any P&I payments related to this delinquent portion coming back to the transaction after all defaults have been passed through to the transaction (approximately 144 months).

WAC deterioration stress

The transaction structure allows excess spread to provide some of the credit enhancement. We applied a WAC deterioration stress that steps up linearly from zero basis points (bps) to 80 bps over 10 years and remains at that level going forward to address the potential for the pool's WAC to decline as higher coupon loans prepay or default and thus stress the excess spread.

Interest stresses

All of the rated certificates have coupons subject to the net WAC-rate cap, as is the case for most post-2009 transactions that we have rated. If the net WAC rate decreases below the cap, the interest due to the certificates will decrease by a similar amount

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 trust 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 of the capped amounts as specified by our criteria to test any impact on the securities due to their dependence on excess spread as a form of credit enhancement and the presence of certain structural features, such as limited P&I advancing. We also took this approach because interest payments on the securities are deferrable.

Imputed Promises Analysis

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 not considered credit-related and, therefore, was not considered

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as part of this analysis.

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

Consistent with our criteria, we assumed that 50.00% of the loans projected to default 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 minimal when they occur and have been extremely limited in pre-2009 RMBS transactions. We continue to expect their actual occurrence in post-2009 transactions to be rare.

Operational Risk Assessment

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

As provided in the operational risk criteria, for severity risk and portability risk, there are three possible rankings: high, moderate, or low. For disruption risk, there are four possible rankings: very high, high, moderate, or low. The rankings for each of the three risks determine the maximum potential rating that can be assigned to a structured finance security for a given KTP before giving consideration to any provisions for a backup KTP, such as a master servicer. After assessing the severity, portability, and disruption risks for the servicer, we determined the ratings on these classes would not be affected.

According to our criteria, we rank severity and portability risk for nonprime residential mortgage collateral as moderate and low, respectively. For EFMT 2021-1, Rushmore is the KTP. We consider the disruption risk for Rushmore as low. Given these risk assessments, our criteria does not cap the ratings on the transaction.

Related Criteria

- 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

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- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- S&P Global Ratings Definitions, Jan. 5, 2021
- Servicer Evaluation: Rushmore Loan Management Services LLC, Sept. 4, 2019
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- Economic Research: Staying Home For The Holidays, Dec. 2, 2020
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- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
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