FitchRatings

Structured Finance
RMBS/CMBS
U.S.

U.S. Single-Family Rental Single Borrower Rating Criteria

Sector-Specific

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Related Criteria

Global Structured Finance Rating Criteria (March 2023)

Structured Finance and Covered Bonds Counterparty Criteria (March 2023)

CMBS Large Loan Rating Criteria (June 2023)

U.S. and Canadian Multiborrower CMBS Rating Criteria (May 2023)

U.S. RMBS Rating Criteria (April 2023)

U.S. RMBS Loan Loss Model Criteria (October 2022)

Criteria for Rating Loan Servicers (December 2022)

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Scope

This report describes Fitch Ratings' approach to assigning and maintaining ratings on securitizations of single-family rental single borrower (SFR-SB) portfolios within the U.S. SFR-SB portfolios generally consist of homes that are owned and operated as rental properties by an operating company. These criteria cover financings sponsored by one SFR operator.

The criteria do not apply to SFR multiborrower (SFR-MB) securitizations. Fitch uses its "U.S. and Canadian Multiborrower CMBS Rating Criteria" to analyze these transactions; this analysis for SFR-MB incorporates a capitalized cash flow approach to valuation. Please refer to the Related Criteria section for SFR-MB product.

Key Rating Drivers

Below are the key rating drivers considered in Fitch's SFR-SB analysis. While property valuation and the rating stress are the most significant, the other drivers factor importantly in the credit analysis.

Property Valuation Analysis: Fitch's SFR-SB rating approach incorporates a countercyclical view on the potential for negative equity or property value declines when projecting losses. The framework utilizes Fitch's RMBS single-family home valuation techniques, including application of Fitch's RMBS standard sustainable market value declines (sMVDs) from Fitch's Sustainable Home Price (SHP) model. The property values utilized in the rating analysis are determined as the lower of the current estimated market value or the value as determined by the application of Fitch's SHP model. The aggregate property values may be reduced if the operator employs nonstandard servicing practices.

Rating Stresses: The analysis incorporates loan to value (LTV) hurdles at each rating stress commensurate with the multifamily LTV hurdles in Fitch's "CMBS Large Loan Rating Criteria." Fitch will typically assign ratings based on a comparison of the cumulative amount of bond proceeds at that class and those senior to it against the rating stress-specific hurdles listed on page 3. Fitch may also adjust LTV hurdles for collateral quality, geographic concentration, interest rate risk for floating-rate loans, and operational risk assessment. Unforeseen increases in liquidation costs or servicer advancing reimbursements could impact the LTV hurdles. To the extent a SFR-SB transaction is amortizing, the amortization factor would be applied as described in Fitch's "CMBS Large Loan Rating Criteria."

Operational Risk Factors: Fitch expects to conduct reviews of the borrower's operating entity. These reviews will cover traditional operational risk topics plus focused aspects such as securitization activity, property management, cash and accounting, tenant relationship management and lease default. Depending on the outcome of the review, Fitch may be unable to rate the transaction. For entities that Fitch views as acceptable, the results of Fitch's view may influence the applicable LTV hurdles.

Structural Analysis: For SFR-SB, Fitch may make further adjustments to the applicable LTV hurdles, based on transaction-specific structural features. Transactions utilizing nonstandard cash flow waterfalls or those having features beyond SFR-SB market convention could face additional stresses. Additional structural analysis may be performed by running cash flow models in cases where principal repayments favor junior classes or interest rate risk is present. Also, property-level cash flows will be reviewed for reasonableness. For SFR-SB, Fitch does not anticipate assigning new ratings for classes where the Fitch-determined leverage exceeds 80% at the trust level.

Rating Framework

SFR-SB transactions are similar to both CMBS single-borrower (SB) large loan transactions and RMBS investor property transactions. As such, Fitch's SFR-SB rating framework utilizes RMBS single-family home valuation techniques, including the application of Fitch's sMVDs from its SHP model. Since there is a lack of diversity and/or exposure to one loan (or one borrower) in SFR-SB, Fitch utilizes the "CMBS Large Loan Rating Criteria," which employs a loan-specific estimate of recovery or refinanceability to define rating stresses.

Total leverage constraints are applied by Fitch to avoid applying new ratings when Fitch believes excess leverage exists. Fitch also performs reasonableness checks on property-level cash flows relative to cumulative debt at each rating stress and on property-level cash flows relative to actual debt service. These are described in the Total Leverage and Property-Level Cash Flow sections.

Fitch's CMBS and RMBS analytical frameworks are referenced in the Related Criteria section.

Property Portfolio Valuation Analysis

Properties in SFR-SB transactions are generally single-family, detached homes that are most similar to investor properties commonly included in RMBS transactions. They may be recently acquired or be part of the borrower's portfolio of rental homes for several years. Similarly, the condition of the properties may vary, depending on the age and the owner/operator's capital expenditures.

For SFR-SB, Fitch uses traditional residential property valuation approaches for determining property portfolio value. These include appraisals, broker price opinions (BPOs) and automated valuation models (AVMs), as described in the Asset Analysis section of the "U.S. RMBS Rating Criteria."

Property Valuation

For existing homes, Fitch's SFR-SB valuation starts with a recent property valuation (usually a BPO or appraisal) on each property, typically obtained within six months of the securitization. Fitch expects improvements that the SFR-SB operator has made to the properties since the initial acquisition to be completed and reflected in the valuation. Some operators also include new homes in their pools; typically, these have full appraisals. AVMs have been most commonly used by the industry as a secondary valuation check; if proposed for use as a primary value, these would need to evidence high accuracy and analytical consideration may be applied for property condition, consistent with Fitch RMBS analytical standards.

Fitch adjusts the value of each property to reflect Fitch's then-current view on potential overvaluation within specific markets. Fitch's SHP model produces a sMVD for over 400 metropolitan statistical areas (MSAs) and regions. The property value is then reduced by the corresponding sMVD for each property's MSA or region.

Fitch does not apply indexation when assigning new ratings, because it expects a current valuation (appraisal or BPO) within six months of the securitization date.

The total net valuation for SFR-SB transactions is the cumulative property values adjusted for the corresponding sMVDs. If Fitch's operational review indicates that there is incremental risk at liquidation due to nonstandard servicing practices, it may apply a reduction in the aggregate net property values by up to 1.5%. Alternatively, Fitch may apply a rating cap or decide to not rate a transaction if it has elevated concerns about servicing practices.

Rating Stresses

In SFR-SB transactions, the rating stresses are defined by the Calculating Rating-Specific Proceeds section of the "CMBS Large Loan Rating Criteria," listed in the Related Criteria section on page 1. These criteria employ a loan-specific estimate of recovery or refinanceability to define rating stresses.

Fitch determines SFR-SB proceeds at the various rating stresses using the LTV approach. The total portfolio value is determined by the Property Portfolio Valuation Analysis section of this report. The rating stress proceeds are calculated by multiplying the total portfolio value by the transaction-specific hurdle rate from the ranges listed in the table to the right (CMBS multifamily hurdle rates are being applied due to the similarity of tenancy and approach to payments as SFR-SB). To determine the debt amount corresponding to a given rating category, Fitch calculates the proceeds by multiplying the LTV hurdle for that rating category by the adjusted property value and then subtracting the debt amount calculated at the higher rating categories.

For example, assuming a 'AAAsf' LTV hurdle of 45%, bonds equal to 45% of aggregate adjusted property values would be eligible for 'AAAsf' ratings. 'AAsf' hurdle rates of 50% would allow for the same bonds equal to 45% of total property value being rated 'AAAsf' with bonds equal to an additional 5% eligible for ratings of 'AAsf'.

As an example, a portfolio with a total Fitch valuation of $1 billion would be expected to generate 'AAAsf' proceeds of between $425 million and $475 million. The 'AAsf' proceeds would be between $495 million and $545 million. Assuming the transaction-specific hurdle rates equaled the high LTV %, then the 'AAAsf' proceeds would be $475 million and the 'AAsf' proceeds would be $70 million ($545 million - $475 million = $70 million).

Fitch considers several factors in determining the transaction-specific hurdle rates from the listed ranges. These factors include Fitch's view on the property quality and condition, geographic concentration and operational risk analysis. These factors are mostly qualitative and would be determined by the Fitch credit committee and communicated to the public in Fitch's rating commentary. Fitch will assess interest rate risk consistent with its "CMBS Large Loan Rating Criteria"; uncapped or non-conforming interest rate risk could result in adjustments to hurdle rates.

Collateral Quality

For SFR-SB securitizations, collateral quality is assumed to be neutral, as it is a relatively homogenous product; i.e. single-family residences and not co-ops or manufactured housing. Consistent with CMBS approaches, for acquisitions with significant rehabilitation investment and ongoing capex not reflected in the property valuation, Fitch may qualitatively adjust the LTV hurdles upward by up to 5.0%.

Geographic Concentration

Fitch will measure geographic concentrations for each securitization using the RMBS concentration approach described in the RMBS loan loss criteria, and categorized for SFR-SB into low, medium or high geographic concentration risks. LTV hurdles will be adjusted downward by 0% for low, 2.5% for medium and 5.0% for higher geographic concentration exposures.

Operational Risk

Fitch expects to conduct operational reviews to help determine whether or not to proceed with rating SFR transactions from an issuer. These reviews are described in the Operational Risk Analysis section of this report. If operational differences across platforms appear over time and contribute to performance distinctions, Fitch may adjust the applicable LTV hurdle used at each rating stress within the high/low end of its LTV hurdle range (for example, at Asf between 56.50% and 61.50%). Fitch may apply a rating cap or decide not to rate transactions where operational risk cannot be addressed through the use of these hurdle adjustments. LTV hurdle adjustments and rating caps tied to operational risk will be communicated in Fitch's rating commentary.

Interest Rate Risk

Interest rate caps are conventionally used to mitigate floating- and adjustable-rate risk in large loan transactions. To the extent a large loan is exposed to floating or adjustable rates, which are not capped or mitigated, the LTV hurdles are adjusted downward by 2.5%. If the interest rate cap is considered nonconforming, the LTV hurdles are adjusted downward by 1.25%. The cap is considered nonconforming if the cap provider is not rated 'BBB' or 'F2', or higher when the category of the

SFR-SB LTV Hurdle Rates

Rating Stress	Low LTV (%)	High LTV (%)
AAAsf	42.50	47.50
AAsf	49.50	54.50
Asf	56.50	61.50
BBBsf	64.50	69.50
BBB-sf	69.50	74.50
BBsf	79.50	84.50
Bsf	97.00	102.00

Source: Fitch Ratings

highest rated class is 'Asf' or higher, the term of the cap is shorter than the term of the loan, or the borrower is not contractually obligated to renew the cap at extension terms.

Fixed-rate transactions with bonds set at low interest rates expose the transaction to less interest rate risk in the case of servicing advancing during liquidation. Fixed-rate transactions containing weighted average bond coupons of 3% or lower could be a consideration for applying hurdle rates that are up to 5% higher than Fitch's core analysis. Fixed-rate transactions with weighted average coupons above 7% will not receive an adjustment. Analytical perspective on pool collateral quality, geographic concentration, interest rate risk and operational risk will be considered in the application of these hurdle adjustments including potential interpolated treatment in cases of weighted average bond coupons between 3% and 7%.

Total Leverage and Property-Level Cash Flow

For SFR-SB transactions, Fitch anticipates initially assigning ratings of 'AAAsf' through 'BBB-sf' without the application of the total leverage hurdle adjustments referenced in its "CMBS Large Loan Rating Criteria."

Fitch does not anticipate initially assigning ratings to classes where the total leverage based on its analysis exceeds 80% at the trust level. This limit is designed to avoid assigning new ratings where certain tranches may be exposed to excess leverage and, thereby, have difficulty refinancing. Existing ratings could be affected if higher leverage is observed (i.e. above 80%) over the life of the transaction, potentially involving rating movements to below investment grade.

Fitch will perform a reasonableness check on property-level cash flows relative to cumulative debt at each rating stress. Property-level cash flows relative to actual debt service will also be analyzed to ensure that there is capacity to service the debt at the rating level being assigned. These metric checks will be used to determine whether a proposed class of debt can be rated under these criteria. If either analysis is relevant to an individual transaction, it will be detailed in Fitch's rating commentary. See Appendix A for Fitch's approach to property-level cash flows.

Amortization Factor

The "CMBS Large Loan Rating Criteria" includes a variable called the amortization factor as part of the analytical process. Most SFR-SB loans are structured as interest only with a five-year term; therefore, the amortization factor would not be applicable. Fitch's analytical approach will not change for terms that are shorter or longer. To the extent a SFR-SB transaction is amortizing, the amortization factor would be applied as described in Fitch's "CMBS Large Loan Rating Criteria." The amortization factor adjusts proceeds to reflect scheduled amortization and is a function of the scheduled principal repayment before maturity. The amortization factor is calculated as follows:

Amortization Factor = [(Average of Initial Loan Balance and Balloon Balance)/Initial Loan Balance]

For loans that amortize by 50% or more, the amortization credit is typically limited by applying a floor of 75% to the amortization factor.

Adverse Selection

In typical RMBS transactions, adverse selection can pose a risk over time as better credits leave the pool and concentrations in weaker geographies becomes more evident. However, for SFR-SB, adverse selection is not seen as a credit risk due to the large number of properties collateralizing transactions and the low potential for principal leakage to subordinate bonds. Also, principal payments to each bond would be at an amount greater than what Fitch expects based on its hurdle rate approach referencing its "CMBS Large Loan Rating Criteria." However, if SFR-SB transactions include features that would leave the rated notes vulnerable to adverse selection or if the market evolves in such a way as to make adverse selection more likely, Fitch may adjust its LTV hurdles and will describe it in the transaction-specific rating action commentary.

Operational Risk Analysis

In SFR-SB transactions, the results of the operational risk analysis may be factored into determining the transaction-specific LTV hurdle rates from the ranges defined in the Rating Stresses section of this criteria. Also, as described in the Property Portfolio Valuation Analysis section, if there is incremental risk at liquidation due to nonstandard servicing practices, Fitch may apply a reduction in the aggregate net property values by up to 1.5%.

Manager/Borrower

Fitch evaluates the relevant experience of the sponsor/borrower and the property manager in SFR-SB transactions for handling their responsibilities for the duration of the transaction. Fitch evaluates these entities on a pass/fail basis, whereby the manager is viewed as 'Acceptable' or 'Unacceptable' by Fitch. If a manager is deemed 'Unacceptable', then Fitch will decline to rate the SFR-SB transaction. Operational review topics are detailed in Appendix B.

Servicers

SFR transactions depend on qualified servicing for the duration of the transaction. Fitch assesses servicer qualifications through a standardized review process and considers discontinuity risk relative to aspects such as financial strength and the servicer's depth and strengths in the market, potential replacement servicers and provisions for replacement servicing in transaction documents.

Fitch expects master and special servicers participating in SFR-SB to have experience with this property type and its associated requirements. If a master or special servicer has not been previously reviewed by Fitch for this product, the servicer may be deemed 'Acceptable' following an analysis by Fitch's operational risk analysts. Fitch expects to conduct reviews of the active servicer(s) every 12-18 months, consistent with its servicer assessment criteria. For more information, see Fitch's "Criteria for Rating Loan Servicers."

Structural Analysis

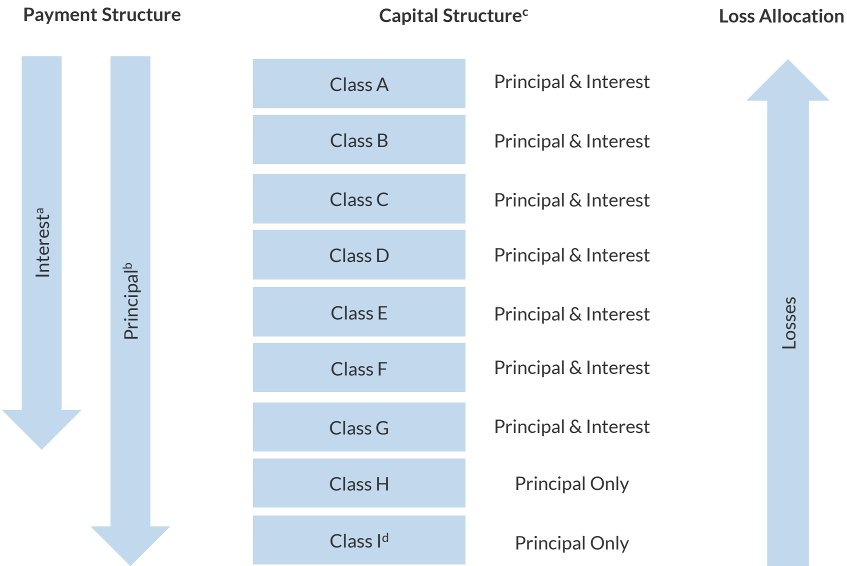
Payment Waterfall and Loss Allocation

Payment Structure

Fitch expects SFR transactions to utilize a sequential-payment structure. These structures pay interest and principal sequentially to each class of notes, and losses are realized in a reverse-sequential manner. While this is typically true in regard to principal payments as a result of any borrower-initiated voluntary prepayments or distributions following a note event of default, there are certain unique situations described below:

- Unrestricted cash (see *Unrestricted Cash* for more details) that would otherwise be distributable to the equityholder may be used to prepay certain tranches of the securitization, typically in reverse-sequential order. This is essentially excess interest and is not an "unscheduled principal repayment". It is not expected to negatively affect the protection to more senior classes, despite the reduction of the balance of more junior bonds, as it should lead to a corresponding increase in overcollateralization (OC), as all the underlying properties will continue to collateralize the transaction. In certain instances, this could be a slight positive for the transaction, as it would reduce the balance of the higher-coupon tranches, which would result in a higher transaction debt service coverage ratio (DSCR). However, Fitch does not anticipate making adjustments for this, as the primary analysis for SFR-SB is recovery-based rather than based on the loan probability of default. Fitch may run additional cash flow stresses if new cases emerge, which imply incremental credit impact to the transaction.
- Certain transactions that allow for the tenants to purchase the property being rented would distribute the sale proceeds pro rata to all but the most subordinated note(s). This is likely to result in a modest credit enhancement (CE) build up as the most subordinate note is excluded from the payments but is less supportive of senior classes compared to a fully sequential distribution. However, the transaction sale price is typically higher than the collateral amount allocated to the transaction under its contractual terms, which helps to mitigate this risk. Fitch may run additional cash flow stresses if new cases emerge that imply incremental credit impact, which may pose ratings volatility to the rated notes.
- Fitch expects that, in most cases, there will not be a need for any cash flow modeling, as the impact to the SFR transaction will typically be de minimis. However, Fitch may perform additional analysis if presented with unusual structures where cash flow timing or cash diversion mechanisms could be impactful to the credit support of the transaction over its life.

Typical SFR Payment Priorities



[a]Interest proceeds are distributed sequentially. Payments to some tranches may be subject to satisfactorily passing a performance test. In those instances, the certificates would be identified as Payment-in-Kind (PIK) tranches. [b]SFR-SB loans are typically structured as interest only, with the only scheduled principal payment at maturity. Unscheduled principal would be distributed sequentially during the term of the loan and at maturity. [c]Capital structure may include other certificate types like exchangeable or class X interest-only certificates. [d]First loss tranche may be structured and held by the securitization sponsor to comply with horizontal risk retention requirements.
Source: Fitch Ratings

Advancing

SFR transactions typically feature full advancing of debt service on the loan and property protection expenses to ensure timely payment of interest and scheduled principal on the loan. The servicer typically has primary advancing responsibilities with the trustee having backup advancing responsibilities. All advancing responsibilities are typically subject to a nonrecoverability determination.

Performance Triggers

Principal and interest payments on subordinate certificates may be subject to performance triggers. Fitch expects certificates that may receive a payment-in-kind (PIK) to provide a mechanism for investors to receive full and compensating deferred interest payments.

Rated Final Maturity and Tail Risk

For SFR-SB, allowing at least five years between the fully extended loan maturity and the final rated maturity of the bonds, the “tail” provides the servicer reasonable time to work out or extend loan(s), as well as sufficient time to foreclose and liquidate, assuming servicers may not extend the loan(s) into the last two years of the tail period. For classes such as certain interest-only (IO) bonds, where no cash flow is due and payable after a predefined date, no tail is necessary.

Cash Flow Structure Analysis

Cash flow analysis is generally not applicable to the SFR sector. While typical SFR transactions reviewed to date do not have structural attributes making further cash flow stress analysis necessary, Fitch may perform analysis on transaction structures where features have a material impact on class-level CE, which could include:

- Embedded features, which benefit junior classes over those more senior by directing payments and/or eroding CE; for example, PIKable tranches.
- Unhedged asset/liability mismatches affecting senior credit support.

- Servicer approaches taken on existing deals, not contemplated in the original documents/ structure that could benefit certain classes of investors over those more senior.
- Property substitutions, which favor certain classes of investors over those more senior.
- Pro-rata pay from tenant purchase distributions.
- OC and related tests affecting class CE.

If such features are present, Fitch's cash flow runs may affect CE for the affected bond class(es).

Other Structural Features

Transaction Events of Default

SFR-SB transactions incorporate event of defaults (EODs), which can be triggered in a number of ways. The most common triggers include, but are not limited to:

- Failure to make any monthly or maturity payment on the date the note is due.
- Failure to fund any applicable reserve accounts.
- Failure to cure any applicable breaches.
- Transfers other than permitted transfers.
- Bankruptcy or insolvency proceedings against the borrower.
- Any action that would call into question the trust's right to the collateral.

Following an EOD, the loan will become immediately due and payable and all amounts received will be allocated according to the post-EOD waterfall. To the extent the loan is not paid in full at this time, the special servicer will begin liquidating the collateral to repay the loan.

Unrestricted Cash

Unrestricted cash is typically defined as available amounts after debt service payments and other required payments and deposits under the applicable loan document. These amounts are typically allowed to be used to pay down the more junior classes. This is not a credit negative to the more senior classes, as the same amount of collateral remains. Fitch will assess the extent to which it is materially positive for rated junior classes. The excess cash is retiring more junior bonds with higher interest rates and, as such, can result in improved DSCR values.

Superpriority and Automatic Liens

It is expected on the closing date that reserve accounts will be established for potential homeowner association (HOA) fees and property tax amounts. There is the possibility that delinquent HOA fees or property taxes can cause a lien that would be placed ahead of the right of the debt issuance. In such cases, liquidation of the property would reduce or potentially eliminate amounts that would otherwise be used to pay the notes. If such accounts are deemed insufficient or if there are no mechanisms in place for ongoing deposits into the accounts, Fitch may haircut the property values, reduce its LTV hurdles or decline to rate the transaction.

Limited Recourse Guaranties

SFR-SB transactions often have a provision in which an affiliated entity of the borrower will provide a limited recourse guaranty on the loan. The guaranty is limited in which shortfalls it would cover and only represents a fraction of the total loan amount. While this is an incremental positive to the rated classes, Fitch does not take it into account in its analysis due to the generally relatively small size of its impact and in consideration of counterparty risk of the guarantor.

Interest-Only Certificates

To the extent a transaction includes IO certificates, the rating on the IO class will be linked to the lowest rated class contributing to its cash flow. This linkage is in line with Fitch's rating of IO certificates across other structured finance sectors. If the IO class is notional off of any portion of the loan that does not have a rating, the IO will not be eligible to be rated.

Exchangeable Certificates

Exchangeable certificates allow investors to exchange one or more of the initial offered certificates for certificates that are in proportion to the principal balance of the initial certificates. The rating of the newly exchanged certificate is linked to the lowest rated class of the initial classes surrendered for exchange. Principal and interest allocated to the exchangeable certificates will not exceed those of the initial certificate(s) surrendered.

Disqualified Properties and Substitution

Properties collateralizing the loan that fail to comply with any of the property covenants or property representations are not eligible to remain in the collateral pool. The borrower must remedy the situation by substituting an eligible property subject to certain transaction parameters or contribute the allocated loan amount of the property toward either a reserve account or through a prepayment of the loan; if they do not act, it will likely be termed an EOD under the terms of the transaction.

Optional Property Release

SFR-SB transactions commonly allow for the release of underlying properties from collateralizing the loan. Any such releases are subject to a number of performance triggers to ensure that the transaction is still adequately protected after portions of the collateral have been released. Frequent performance triggers include DSCR tests as well as updated property valuations. Property releases subject the transaction to Fitch rating confirmation.

Representations and Warranties

Representations and Warranties (R&Ws) within SFR-SB transactions consist of those provided by the seller, the borrower and property-level representations (reps). Breaches of the reps provided by the loan seller that are not cured will result in the loan amount becoming immediately due and payable in full. Breaches of the reps provided by the borrower (as well as the property-level reps) that are not cured will usually result in an EOD of the transaction. Fitch will incorporate its review of the provided reps in the context of CMBS industry-standard R&Ws, and in conjunction with its review of operational considerations in determining whether the higher or lower range of the relevant LTV hurdle stresses will be used.

Rating Assumption Sensitivity

Fitch's sensitivity analysis provides three levels of rating sensitivities to demonstrate how the ratings would react to steeper MVDs than that assumed at issuance. The various rating sensitivities include defined stresses and defined sensitivities. The implied rating sensitivities are only indicative of some of the potential outcomes and do not consider other risk factors to which the transaction is exposed or are considered during the surveillance process. Furthermore, the sensitivity analyses are calculated based on pool-level weighted average attributes and may differ from a loan-level re-analysis of the pool at the additional stress levels.

Defined Stresses

Defined stresses show the impact of three defined stress assumptions where the base SHP level is 10, 20 and 30 percentage points lower than that derived at deal issuance. These assumptions result in steeper sMVDs and lower total property valuation.

Defined Stresses

	Additional Decline in Sustainable Home Price Level		
Original Rating	**10%**	**20%**	**30%**
AAAsf	AAsf	A–sf	BBB–sf
AAsf	A–sf	BBB–sf	BBsf
Asf	BBB–sf	BB+sf	Bsf
BBBsf	BB+sf	BB–sf	<Bsf
BBsf	Bsf	<Bsf	<Bsf
Bsf	<Bsf	<Bsf	<Bsf

Note: An illustrative example assuming an initial Fitch portfolio value of $1 billion and weighted average sMVD of 12%.
Source: Fitch Ratings

Defined Sensitivities

Defined sensitivities describe the stresses to the assumptions required to reduce a rating by one full category, to non-investment grade and to 'CCCsf'. The variable being stressed in this analysis is Fitch's SHP assumption. The percentage points shown in the table below reflect the additional MVDs that would have to occur to impact ratings for each defined sensitivity for a hypothetical deal.

Defined Sensitivities

(%)	Reduced Rating		
Original Rating	One Full Category	Non-Investment Grade	To CCCsf
AAAsf	5–10	35–40	45–50
AAsf	0–5	30–35	35–40
Asf	0–5	20–25	30–35
BBBsf	15–20	15–20	25–30
BBsf	10–15	N.A.	10–15
Bsf	5–10	N.A.	5–10

N.A. – Not applicable
Source: Fitch Ratings

Fitch performs sensitivity analyses on the ratings assigned to SFR-SB transactions. Fitch will provide details of these sensitivities for each transaction, which may include the following considerations.

- Rating sensitivity to increased property-level sMVD assumptions.
- Rating sensitivity to increased MVDs for loans concentrated in a geographic region.

Surveillance

Following transaction closing, Fitch expects to receive regular remittance reports as stipulated in the transaction documents, and monitors deal performance relative to expectations and anticipated stresses. The transaction's ratings are reviewed by a credit committee at least once a year.

Fitch's SFR-SB surveillance methodology is generally consistent with the asset analysis for estimating portfolio property values, as described in this report, and will reflect updated collateral pool information following any property releases and the current capital structure due to paydowns. An additional consideration during ongoing monitoring relates to the potential for home price increases after deal close, and is discussed further below.

Updated Property Values

The property value is adjusted to account for nominal home price movements, and the current loan balance is used to reflect any amortization since origination. The values are updated using the MSA-level Case-Shiller home price index (indexation), new BPOs, or other valuation methods Fitch deems acceptable while also taking into account Fitch's sMVDs.

Criteria Disclosures

Fitch expects to disclose the following in its rating commentary:

- If a rating cap is applied.
- The Fitch portfolio value.
- Leverage statistics for each rated tranche.
- If LTV hurdles are adjusted.
- If checks on property-level cash flows relative to cumulative debt at each rating stress or on property-level cash flows relative to actual debt service are impactful to the transaction analysis.

Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind our ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

Limitations

Ratings, including Rating Watches and Rating Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's Ratings Definitions page at www.fitchratings.com.

Appendix A: Property-Level Cash Flow Assumptions

Rent Recognition: Lesser of actual rents in place or market rents.

Vacancy: Greater of 10%, in-place or market vacancy.

Management Fees: Greater of market or actual for similarly sized portfolios with similar attributes.

Real Estate Taxes: Based on actual costs.

Insurance: Based on actual costs.

Repairs and Maintenance/Turnover/Capex: In the aggregate, typically the greater of 1.5% of property value or $1,500 per property; lower than 1.0% of value may be considered for new properties or properties in high value markets, or if average rehabilitation costs per unit exceed $10,000.

Leasing/Marketing Expenses: Higher of underwritten amount or one full month of gross income net of vacancy every three years.

Home Owners Association Expense: Based on actual costs.

Appendix B: SFR-SB Operational Risk Reviews

The following topics will typically be discussed during these reviews:

1. Company & Management Experience
    a. Company History
    b. Current Ownership and Organizational Structure
    c. Company/Corporate Strategy and Business Plan
2. SFR Focus
    a. Roles and Participation in SFR Securitization
    b. Property Management
    c. Accounting and Cash Management
    d. Tenant Relationship Management
    e. Lease Default Management
    f. Management of Legal Matters
3. Litigation
4. Regulatory Reviews
5. Financial Condition
6. Procedures and Controls
7. Staffing and Training
8. Technology

Appendix C: Key Documents

The following list of key documents are typical for SFR securitizations. Individual transactions may use different nomenclature for certain documents. Fitch will review key documents to determine the specific roles and responsibilities of each party and to assess whether the structure is consistent with Fitch's published criteria, where applicable.

Loan Agreement

Typically, SFR-SB loans are structured as interest-only loans with a five-year loan term with loan provisions similar to loans securitized in CMBS large loan portfolio transactions.

Loan Purchase Agreement

This document transfers all rights, title and interest in the loan and loan documents from the mortgage loan seller to the depositor.

Management Agreement

In SFR-SB transactions, the property management agreement describes how the manager will operate and maintain the day-to-day operations of the properties on behalf of the borrower. These activities typically include regular maintenance, capital expenditures, leasing activities, subcontracting, and cash management.

Trust and Servicing Agreement

The trust and servicing agreement establishes the issuing trust and the servicing standards. This agreement is often referred to as the pooling and servicing agreement.

Legal Opinions

Fitch expects to receive and review the following list of legal opinions for SFR transactions:

- Corporate opinion.
- Security interest opinion.
- Tax opinion.
- True sale opinion.
- Non-consolidation opinion.
- Enforceability opinion.

DISCLAIMER & DISCLOSURES