

Presale:

Barclays Mortgage Loan Trust 2021-NQM1

November 10, 2021

Preliminary Ratings

| Class | Preliminary rating(i) | Amount (\$) | Interest rate (%) (ii) | Credit enhancement (%) (iii) | Class type |
|-------|-----------------------|-------------|------------------------|------------------------------|------------------|
| A-1 | AAA (sf) | 169,353,000 | Fixed | 30.65 | Senior |
| A-1X | AAA (sf) | | (iv) Fixed | N/A | Senior |
| A-2 | AA (sf) | 16,605,000 | Fixed | 23.85 | Senior |
| A-3 | A (sf) | 26,618,000 | Fixed | 12.95 | Senior |
| M-1 | BBB (sf) | 12,332,000 | Fixed | 7.90 | Mezzanine |
| B-1 | BB (sf) | 9,524,000 | Fixed | 4.00 | Subordinate |
| B-2 | B (sf) | 5,739,000 | Net WAC | 1.65 | Subordinate |
| B-3 | NR | 4,029,596 | Net WAC | 0.00 | Subordinate |
| XS | NR | | (v) (vi) | N/A | Excess cash flow |
| R | NR | | N/A N/A | N/A | Residual |

Note: This presale report is based on information as of Nov. 10, 2021. The ratings shown are preliminary. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. This report does not constitute a recommendation to buy, hold, or sell securities. (i)The information in this report reflects the term sheet dated Nov. 5, 2021. The preliminary ratings address the ultimate payment of interest and principal. (ii)Interest can be deferred on the classes. Fixed coupons are subject to the pool's net WAC rate. The class B-2 and B-3 coupon equals net WAC. The net WAC rate is calculated based on each loan's net mortgage rate and stated principal balance excluding any deferred amount applicable to such mortgage loan. (iii)This credit enhancement is solely from subordination. Excess spread also provides credit enhancement. (iv)Class A-1X will have a notional amount equal to the lesser of the balance of class A-1 immediately prior to such distribution date and the notional amount set forth on a schedule for the related accrual period. After the 36th distribution date, the notional amount of the class A-1X notes will be zero. (v)The notional amount equals the loans' stated principal balance. (vi)Certain excess amounts and prepayment premiums. WAC--Weighted average coupon. NR--Not rated. N/A--Not applicable.

Profile

Expected closing date Nov. 23, 2021.

Cut-off date Oct. 1, 2021.

Distribution date The 25th of each month or the next business day beginning Dec. 27, 2021.

Stated maturity date Sept. 25, 2051.

Note balance, including unrated classes \$244,200,597 in aggregate.

PRIMARY CREDIT ANALYST

Julian He, CFA
New York
+ 1 (212) 438 8154
julian.he
@spglobal.com

SECONDARY CONTACTS

Meghan Benegar
Centennial
+ 1 (303) 721 4658
meghan.benegar
@spglobal.com

Michael J Graffeo
New York
+ 1 (212) 438 2680
michael.graffeo
@spglobal.com

SURVEILLANCE CREDIT ANALYST

Truc T Bui
San Francisco
+ 1 (415) 371 5065
truc.bui
@spglobal.com

ANALYTICAL MANAGER

Vanessa Purwin
New York
+ 1 (212) 438 0455
vanessa.purwin
@spglobal.com

Profile (cont.)

| | |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Collateral type | First-lien, fixed- and adjustable-rate, fully amortizing residential mortgage loans (some with interest-only periods) to prime and non-prime borrowers, generally secured by single-family residential properties, planned-unit developments, condominiums, and two- to four-family residential properties. The pool has 731 loans backed by 757 properties, which are primarily non-qualified mortgage (non-QM/ATR compliant) and ATR-exempt loans. |
| Credit enhancement | For each class of rated securities, subordination in the form of securities that are lower in payment priority, as well as excess spread that preserves subordination. |

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

Participants

| | |
|------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Issuer | Barclays Mortgage Loan Trust 2021-NQM1. |
| Sponsor and seller | Sutton Funding LLC. |
| Depositor | BCAP LLC. |
| Indenture trustee, owner trustee, paying agent, note registrar and certificate registrar | Citibank N.A. |
| Delaware trustee | Citicorp Trust Delaware N.A. |
| Custodian | Wells Fargo Bank N.A. |
| Master servicer | Nationstar Mortgage LLC. |
| Servicers | Carrington Mortgage Services LLC (93.69%) and Fay Servicing LLC (6.31%). |
| Representations and warranties breach reviewer | Pentalpha Surveillance LLC. |
| Initial purchaser | Barclays Capital Inc. |

Originators/Loan Sellers Making Up More Than 10.0% Of The Collateral

| Entity | By balance (%) | Due diligence (%) | Originator ranking |
|----------------------------------|----------------|-------------------|--------------------|
| Carrington Mortgage Services LLC | 93.69 | 100.0 | Average |
| Invigorate Finance LLC | 6.31 | 100.0 | Not ranked |

Servicers

| Entity | By balance (%) | S&P Global Ratings' select servicer | Operation |
|----------------------------------|----------------|-------------------------------------|------------------|
| Carrington Mortgage Services LLC | 93.69 | Yes | Primary servicer |
| Fay Servicing LLC | 6.31 | Yes | Primary servicer |
| Nationstar Mortgage LLC | 100.00 | Yes | Master servicer |

Rationale

The preliminary ratings assigned to Barclays Mortgage Loan Trust 2021-NQM1's (BARC 2021-NQM1) mortgage pass-through notes reflect our view of:

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

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- The credit enhancement provided for this transaction;
- The transaction's associated structural mechanics;
- The representation and warranty (R&W) framework for this transaction;
- The mortgage originators and aggregators, primarily Carrington Mortgage Services LLC;
- The geographic concentration; and
- The impact that the economic stress brought on by the COVID-19 pandemic will likely have on the performance of the mortgage borrowers in the pool and liquidity available in the transaction.

Environmental, Social, And Governance (ESG) Factors

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

For RMBS, we generally consider social credit factors as above average because housing is viewed as one of the most basic human needs, and conduct risk presents a direct social exposure for lenders and servicers because regulators are increasingly focused on ensuring fair treatment of borrowers. Social risk is generally factored into our base-case assumptions for RMBS transactions. Our assumptions also consider physical climate risks such as floods, storms, or wildfires, which could severely damage properties, reduce their value, and hurt recoveries if borrowers default. This transaction exhibits some geographic concentration in certain core-based statistical areas (CBSAs), which may expose parts of the portfolio to extreme weather events, in our view.

The transaction's governance risk exposure is higher than our benchmark due to certain weaknesses related to the R&Ws framework as described further below. By applying certain R&W pool-level adjustment factor to the transaction, we have accounted for risk related to ESG credit factors. Certain other features also provide mitigants to the transaction's governance risk exposures including the fact that 100% of the loans in the pool were subject to a third-party due diligence review with limited material findings (see the Third-Party Due Diligence section below for more detail).

Overview

BARC 2021-NQM1's is Barclays/Sutton Funding LLC's first non-qualified mortgage (non-QM) RMBS transaction. Non-QM loans make up about 67.18% of the pool, and 22.27% of the pool is exempt investor property loans. The seller and sponsor, Sutton Funding LLC, aggregated all of the loans from Carrington Mortgage Servicers LLC (CMS), Spruce Hill Mortgage Acquisition Co. LLC (SHMAC) and Invigorate Finance LLC (Invigorate), which consist of 64.2%, 29.5%, and 6.3% of the pool by balance, respectively.

Noteworthy Features

Forbearance and modifications

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act enacted COVID-19-related relief for borrowers with government-backed mortgage loans in the form of a temporary forbearance of up to 12 months of scheduled payments. While non-agency loans do not fall under the CARES Act as it relates to this forbearance, servicers have also been granting forbearance plans to non-agency borrowers, typically with some variations to those of the CARES Act (e.g., timeframe, approval requirements, etc.). On April 17, 2020, we updated 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) to account for a portion of the borrowers entering COVID-19-related temporary forbearance plans and their impact to the overall credit quality of collateralized pools. To the extent a securitization pool exhibits growth levels in forbearance over time beyond those otherwise expected, additional adjustments may be applied.

To differentiate the credit quality of securitization pools with varying percentages of loans in various stages of forbearance or deferment due to the outbreak of COVID-19 at the time of issuance, we increased loss coverage levels to account for the potential incremental risk. Given our current expectations for temporary forbearance or deferment plans and our market outlook, we view the credit quality of a mortgagor on a forbearance or deferment plan as weaker than one with a current loan but potentially stronger than one with a 30-day delinquent loan that exhibits payment issues in a normal macroeconomic environment. Our view considers the fact that forbearance or deferment may have been utilized by some borrowers who could have otherwise made the payment due, or the forbearance may be related to a temporary furlough or loss of income. The adjustment factors we apply to 30- and 60-day delinquent loans are 2.5x and 5.0x, respectively.

As of Oct. 1, 2021, 61 mortgage loans (approximately 6.99% of the pool balance) have borrowers who were either granted forbearance of up to four months and/or deferment due to the outbreak of COVID-19. None of these loans are currently in an active forbearance plan. There are 27 loans for which the borrowers have completed their forbearance plans and have also received a deferment.

There are 30 loans where the borrowers have completed their forbearance plans and have either continued to make full monthly payments due during the forbearance period or repaid the forbore amounts in full. However, 13 of these borrowers have been modified after their forbearance plans had ended, and three of these loans have been delinquent either before and/or after completion of their forbearance plan. Additionally, 12 other loans in the pool have been modified. As a result, these 25 loans have a higher current balance than their original balance and received an interest rate reduction. In total, 25 loans in the pool have been modified (approximately 3.33% of the pool balance), which we also considered in our overall forbearance-related and modification adjustment factor. This resulted in an overall adjustment factor of 1.05x at the pool level.

When deriving these factors, we considered aspects such as the seasoning of the loans and forbearance plans, payment patterns of those loans before and throughout the forbearance plan, the various stages of forbearance or deferment (see table 1), and our general expectations of additional forbearance and deferment from now until securitization closing.

Table 1

Forbearance/Deferment Status

| | Property count (no.) | % by balance |
|-------------------------------------------------------------|----------------------|--------------|
| Never received forbearance or deferment | 670 | 93.0 |
| Completed forbearance plan--no missed payments | 4 | 0.5 |
| Completed forbearance plan--repaid past payments in full(i) | 30 | 3.6 |
| Completed forbearance plan and deferment granted(i) | 27 | 2.9 |
| Active forbearance | -- | -- |

(i)Includes loans that were delinquent before/after reinstatement or modified after forbearance plan ended.

We will continue to monitor the credit 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 affect the ratings. For instance, if we were to change the pool-level adjustment related to the portion of the pool currently in forbearance to 1.08x (which is more akin to our adjustment factors for a 60-day delinquent loan) from 1.05x, ratings could, in some cases, be one notch lower. We will also continue to monitor macroeconomic and housing conditions and update our mortgage market outlook and associated archetypal foreclosure frequencies as applicable.

Cross-collateralized loans

This transaction contains six cross-collateralized loans (1.6% of by pool balance) backed by 32 properties. The maximum number of properties securing any one loan is 13, with the next highest secured by 10 properties. We analyzed the cross-collateralized loans as separate properties and allocated the balance of each loan in proportion to each property's appraisal value. The debt service coverage ratio (DSCR) for these loans is calculated by aggregating the qualifying rental income and expenses for all properties securing the loan. Each property within each cross-collateralized loan is treated as having the same DSCR.

While our LEVELS model does not treat cross-collateralized loans differently than loans backed by a single property, any fixed costs associated with foreclosing on a property is duplicated for each property within the loan. This results in a higher loss severity when the analysis is done at the property level.

Deferred balances

In this transaction, the stated principal balance of each loan will include any pre-cut-off date deferred amounts, which is any deferred amount created prior to the cut-off date that does not accrue interest on a monthly basis but is a legal obligation of the applicable mortgagor that becomes payable as a balloon payment when the related mortgage loan becomes due (at maturity, payoff, or sale) unless otherwise discharged, forgiven, or released. Therefore, the mortgage loans backing the notes in this transaction include these deferred amounts. As stated in the rating table above, because the deferred amounts do not accrue interest, the net weighted average coupon (WAC) rate for the pool is calculated based on each loan's net mortgage rate and stated principal balance excluding any deferred amount applicable to such mortgage loan.

As of the cut-off date, the pre-closing deferred amounts had an approximate outstanding balance

of \$147,679. These amounts, which do not accrue interest, are pledged to the rated notes and are subordinated to accrued interest and principal upon liquidation. Therefore, we accounted for such deferred amounts to determine the LTV ratio for the affected loans with respect to foreclosure frequency and loss severity.

High concentration of alternative and other documentation loans

In this transaction, 331 loans (52.20% by pool balance) were verified using alternative documentation, such as personal or business bank statements, while 157 loans (20.50% by pool balance) were either asset depletion loans or property-focused investor loans underwritten to an investment property business-purpose program that did not consider the borrowers' income or employment in the underwriting process. We view income verification using alternative and other documents to be a weaker standard than "full" documentation of income and, consequently, increased our loss coverages for these loans by applying an adjustment to the foreclosure frequencies.

Seasoned loans

The BARC 2021-NQM1 pool consists of 29.5% (by pool balance) of seasoned loans, including loans previously securitized in the Spruce Hill Mortgage Loan Trust 2019-1 transaction. The weighted average seasoning for the pool is approximately 14 months. Based on the seasoning months of each seasoned loan in the pool, we adjust its foreclosure frequency downward by phasing out the documentation type adjustment (after two years) and applying our general seasoning credit (after five years).

Servicing fee

We believe the weighted average servicing fee rate of 40.5 basis points (42.0 basis points per annum for Carrington loans and 17.5 basis points per annum for Fay Servicing LLC [Fay] loans) provided in the documents is relatively low for non-QM loans and, in our opinion, might not be adequate to attract quality servicers should the servicing function need to be transferred. In situations where the successive servicer charges a higher fee than 40.5 bps, it will reduce the funds available to distribute to the notes, i.e. reducing excess spread as soft credit enhancement. We believe a fee rate of 50 basis points would be sufficient to allow a successful transfer if necessary. As such, we ran our cash flow stresses by modelling an aggregate servicing fee of 50 basis points and concluded that this covered the likelihood of the potential reductions to the noteholders at our preliminary rating levels.

Temporary forbearance liquidity stress

Due to the limited principal and interest (P&I) advancing, we applied a delinquency stress to test the transaction's liquidity when certain loans enter temporary forbearance. 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).

Collateral Summary

The assets consist primarily of seasoned and unseasoned first-lien, fixed- and adjustable-rate, fully amortizing residential mortgage loans (some with interest-only [IO] periods) to prime and non-prime borrowers. The mortgage pool consists of 731 mortgage loans with a principal balance of approximately \$244.2 million as of the cut-off date. The loans in this pool have 30-year original terms to maturity, and the pool's weighted average seasoning is approximately 14 months from the origination 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 4).

The 'AAA' loss coverage requirement for the pool was determined to be 24.85%. Certain characteristics of the mortgage loans that we considered weaker than the archetypal pool in our analysis (see the Strengths And Weaknesses section) include:

- A larger portion of loans underwritten to "alternative" or "other" documentation type;
- Occupancy (investor property);
- Loan purpose (cash-out refinances);
- Property type (two- to four-family homes);
- Self-employed borrowers;
- A significant portion of non-QM loans; and
- Loans that have been granted temporary forbearance or deferment due to the COVID-19 pandemic.

The mortgage pool has a weighted average current combined loan-to-value (CLTV) ratio of 69.12%. The weighted average current FICO score for the collateral pool is 698, based on certain S&P Global Ratings assumptions. (See table 3 for a breakdown of the pool by the borrowers' FICO score.) There are five loans to foreign nationals or nonpermanent resident aliens (NPRAs; 1.0% by balance) in the pool. We applied a 1.5x multiple to the foreclosure frequencies for these loans. In addition, out of these five loans, one loan lacked a FICO score. We assigned a score of 611--approximately the pool's average original FICO score minus one standard deviation--for this loan.

Table 3

Updated Credit Score Statistics

| FICO score | Current balance (%) | No. of loans | Avg. current balance (\$000s) |
|------------|---------------------|--------------|-------------------------------|
| 750+ | 22.49 | 148 | 371.10 |
| 725-749 | 13.27 | 82 | 395.30 |
| 700-724 | 17.67 | 100 | 431.40 |
| 675-699 | 13.86 | 94 | 360.10 |
| 650-674 | 13.72 | 100 | 335.00 |
| 625-649 | 6.55 | 58 | 275.80 |
| 600-624 | 4.37 | 51 | 209.40 |

Table 3

Updated Credit Score Statistics (cont.)

| FICO score | Current balance (%) | No. of loans | Avg. current balance (\$000s) |
|------------|---------------------|--------------|-------------------------------|
| 575-599 | 2.74 | 36 | 186.00 |
| 550-574 | 1.85 | 21 | 215.40 |
| Below 550 | 3.48 | 41 | 207.20 |
| Total | 100.00 | 731 | 334.1 |

The weighted average seasoning of the loans in the pool is approximately 14 months. About 29.5% of the pool is seasoned more than 24 months, with an average seasoning of approximately 35 months. We typically expect to receive updated property valuations for a statistically significant random sample of seasoned loans, as well as all reperforming and modified loans.

In this transaction, we received updated desk review valuations, for all but two loans on this subset. Also, we typically use updated property valuations that are no greater than 180 days old from the transaction cut-off date. All updated valuations for the seasoned loans were within the last five months.

After reviewing the updated property valuations for the entire pool, we used the broker price opinions (BPOs), where provided, to calculate the current CLTV ratios of the related loans. For the remaining loans, we used the FHFA house price index-adjusted original valuation to calculate the current CLTV ratios.

Mortgage loans backed by properties that are primary residences constitute approximately 74.8% of the pool balance. Of the mortgage loans, 55.8% are backed by single-family residences, including townhouses, 28.8% are backed by planned-unit developments, 5.0% are backed by condominiums, and 10.5% are backed by two- to four-family homes.

The mortgage loans consist of fixed-rate (73.8% by pool balance) and 10-year hybrid adjustable-rate fully amortizing mortgage loans (26.2% by pool balance). Some adjustable-rate mortgages and fixed-rate loans have IO periods (2.3%), and all these loans have ten-year IO periods. All loans in this pool have a 30-year original term to maturity.

Table 4

Collateral Characteristics

| Collateral Characteristics | BARC 2021-NQM1 | VERUS 2021-6 | SGR 2021-2 | DRMT 2021-3 | GSMBS 2021-NQM1 | Archetypal pool(i) |
|--------------------------------|-------------------|-----------------|---------------|----------------|--------------------|-----------------------|
| Closing pool balance (mil. \$) | 244.2 | 477.4 | 229.4 | 379.8 | 290.8 | N/A |
| Closing loan count (no.) | 731(ii) | 841 | 376 | 857 | 613 | N/A |
| Avg. loan balance (\$) | 334,064 | 567,593 | 610,074 | 443,227 | 474,395 | N/A |
| WA original CLTV (%) | 71.8 | 70.2 | 68.0 | 74.7 | 74.6 | 75 |
| WA current CLTV (%) | 69.1 | 69.5 | 67.9 | 71.3 | 71.5 | 75 |
| WA FICO(iii) | 698 | 735 | 741 | 729 | 737 | 725 |
| WA current rate (%) | 6.1 | 5.1 | 4.5 | 5.6 | 5.4 | N/A |
| WA original term (mos.) | 360 | 372 | 388 | 368 | 365 | 360 |
| WA seasoning (mos.) | 14 | 7.6 | 2 | 12 | 13 | 0-6 |
| WA debt-to-income (%) | 33.8 | 34.5 | 36.7 | 34.0 | 33.9 | 36 |

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Table 4

Collateral Characteristics (cont.)

| Collateral Characteristics | BARC 2021-NQM1 | VERUS 2021-6 | SGR 2021-2 | DRMT 2021-3 | GSMBS 2021-NQM1 | Archetypal pool(i) |
|-------------------------------------------------------------------------------------|---------------------------|-------------------------|-----------------------|------------------------|----------------------------|-------------------------------|
| WA DSCR (non-zero) | 1.28 | 1.30 | 1.30 | 1.30 | 1.35 | N/A |
| Owner occupied (%) | 74.8 | 56.2 | 58.8 | 72.5 | 47.0 | 100 |
| Single-family (including unattached, attached PUD, and townhouse) (%) | 84.6 | 77.9 | 81.4 | 85.6 | 66.1 | 100 |
| Adjustable-rate loans (%) | 26.2 | 18.3 | 3.4 | 19.5 | 32.9 | 0 |
| Loans with IO payments (%) | 2.4 | 21.6 | 26.0 | 16.2 | 22.8 | 0 |
| Purchase (%) | 49.2 | 61.8 | 54.4 | 67.1 | 55.1 | 100 |
| Cash-out refinancing (%) | 36.9 | 22.3 | 23.0 | 19.5 | 22.8 | 0 |
| Full documentation (%) (including QM loans) | 27.3 | 28.8 | 8.2 | 24.2 | 43.7 | 100 |
| Alternative/bank statement documentation (%) | 52.2 | 41.2 | 56.0 | 53.6 | 25.9 | 0 |
| Other/asset depletion/DSCR documentation (%) | 20.5 | 30.1 | 35.9 | 22.2 | 30.3 | 0 |
| Self-employed borrowers (%) | 60.3 | 48.3 | 74.1 | 63.8 | 57.6 | 0 |
| Loans with co-borrowers (%) (iv) | 29.9 | 26.7 | 30.3 | 22.8 | 33.1 | 0 |
| Loans to borrowers with multiple mortgages (%) (v) | 1.6 | 5.9 | 14.3 | 8.7 | 16.7 | N/A |
| Loans to foreign borrowers (%) (foreign national and non-permanent resident aliens) | 1.0 | 4.3 | 1.5 | 11.8 | 2.0 | 0 |
| Modified loans (%) (vi) | 3.3 | 0 | 0 | 0.8 | 0.4 | 0 |
| PCEs (%) (vi) | 2.8 | 0.1 | 1.0 | 0.9 | 0.1 | 0 |
| Current (%) (vii) | 99.5 | 99.1 | 100 | 98.2 | 99.6 | 100 |
| 30+ day delinquent (%) | 0.5 | 0.9 | 0 | 1.8 | 0.4 | 0 |
| Length of P&I advancing (mos.) (viii) | 3 | 3 | 6 | 6 | 3 | Full |
| Pool-level adjustments (multiplicative factors) | | | | | | |
| Geographic concentration | 1.00 | 1.05 | 1.06 | 1.00 | 1.05 | 1.00 |
| Mortgage operational assessment | 1.00 | 1.00 | 1.00 | 1.00 | 1.05 | 1.00 |
| Representations and warranties | 1.10 | 1.10 | 1.10 | 1.10 | 1.10 | 1.00 |
| Other (i.e. PCE/due diligence) | 1.04 | 1.00 | 1.02 | 1.00 | 1.00 | 1.00 |
| Loans modified/deferred payments related to COVID-19 | 1.05 | 1.01 | 1.00 | 1.03 | 1.10 | N/A |
| Combined pool-level adjustments (ix) | 1.20 | 1.17 | 1.19 | 1.14 | 1.33 | 1.00 |

Table 4

Collateral Characteristics (cont.)

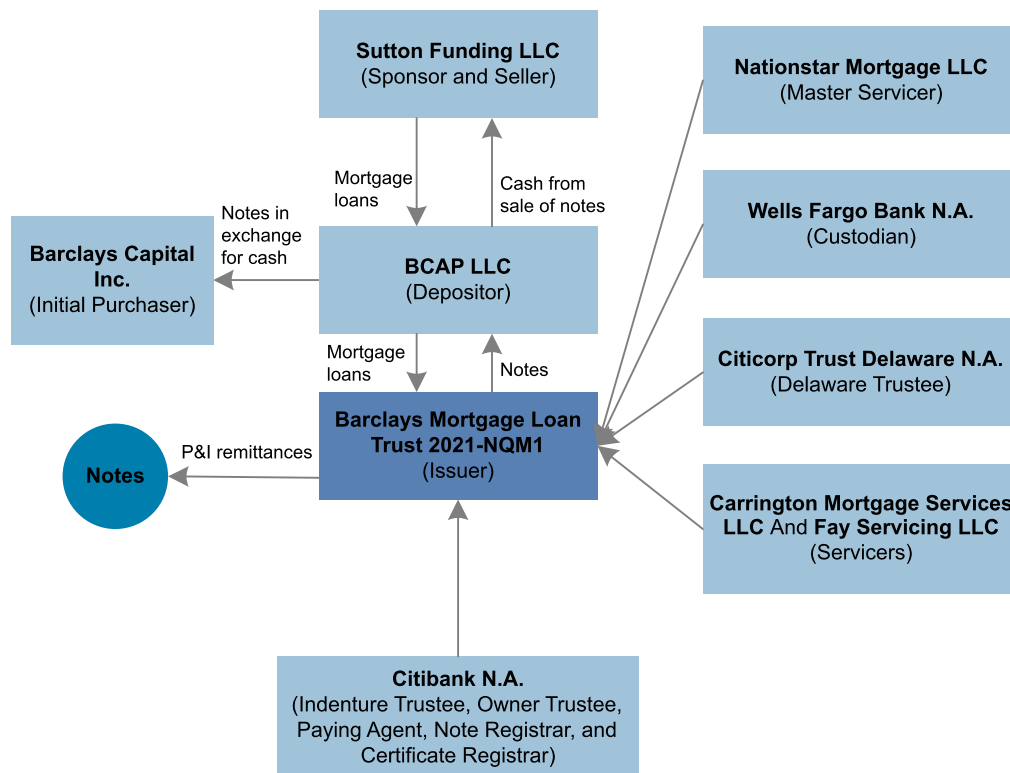
| Collateral Characteristics | BARC 2021-NQM1 | VERUS 2021-6 | SGR 2021-2 | DRMT 2021-3 | GSMBS 2021-NQM1 | Archetypal pool(i) |
|---------------------------------|-------------------|-----------------|---------------|----------------|--------------------|-----------------------|
| Loss estimation(x) | | | | | | |
| 'AAA' loss coverage (%) | 24.85 | 22.00 | 23.80 | 25.95 | 28.45 | 7.50 |
| 'AAA' foreclosure frequency (%) | 47.40 | 45.35 | 46.93 | 47.91 | 52.82 | 15.00 |
| 'AAA' loss severity (%) | 52.43 | 48.51 | 50.71 | 52.29 | 53.86 | 50.00 |
| 'BBB' loss coverage (%) | 7.90 | 7.50 | 7.90 | 8.80 | 10.10 | 1.92 |
| 'BBB' foreclosure frequency (%) | 26.42 | 25.65 | 25.63 | 26.86 | 29.93 | 6.41 |
| 'BBB' loss severity (%) | 29.90 | 29.24 | 30.82 | 32.76 | 33.75 | 30.00 |
| 'B' loss coverage (%) | 2.35 | 2.50 | 2.30 | 2.90 | 4.25 | 0.65 |
| 'B' foreclosure frequency (%) | 11.22 | 11.72 | 10.37 | 11.72 | 15.04 | 3.25 |
| 'B' loss severity (%) | 20.94 | 21.33 | 22.18 | 24.74 | 28.25 | 20.00 |

(i)As defined in our Feb. 22, 2018, criteria article. (ii)731 loans backed 757 properties. The collateral pool contains 6 cross-collateralized loans backed by 32 properties. (iii)FICO reflects the most recent scores obtained with certain analytical assumptions. (iv)Limited to loans where certain characteristics were provided for multiple borrowers. (v)Limited to borrowers who have multiple mortgage loans or properties included in the securitized pool. (vi)Limited to modified and PCE loans considered in our analysis. (vii)Loans in forbearance are treated as current and included in the model forbearance adjustment. (viii)Months of P&I advancing on a delinquent mortgage loan to the extent such advances are deemed recoverable. (ix)Combined pool-level adjustments are the product of each pool-level adjustment listed above. (x)The guidance document published April 17, 2020, reflects a revision to our 'B' (base-case) projected foreclosure frequency assumption for an archetypal loan to 3.25% from 2.50%. WA--Weighted average. CLTV--Combined loan-to-value ratio. DSCR--Debt service coverage ratio. PUD--Planned-unit development. IO--Interest-only. QM--Qualified mortgage. PCE--Prior credit event. P&I--Principal and interest. N/A--Not applicable.

Transaction Structure

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

Transaction Diagram



The transaction is structured as a two-step transfer of the underlying receivables from the sponsor and seller (Sutton Funding LLC) to the depositor (BCAP LLC), and from the depositor to the issuing trust. The issuing trust transfers the newly issued notes to the depositor. The depositor sells them to the initial purchaser, who sells them to third-party investors. The depositor also sells the non-offered notes to an affiliate of 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 transaction:

- The mortgage pool generally consists of loans to borrowers with considerable home equity, as demonstrated by the pool's weighted average original and current CLTV ratios of 71.79% and 69.12%, respectively.
- The third-party due diligence providers, each of which appears on our list of reviewed providers, performed due diligence on 100% of the pool's loans. Their reviews encompassed credit (underwriting) compliance, property valuations, regulatory compliance (where applicable), and data quality.
- Approximately 29.9% of the loans by balance have more than one borrower, which reduces the risk of default. We applied a 0.75x adjustment factor to our loss estimates for these loans.

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- The class A-1, A-2, and A-3 notes (together, the senior notes), benefit from a credit enhancement floor, wherein no principal is paid to any of the subordinate classes until the senior notes are retired. Additionally principal is paid sequentially among the senior classes in periods when the cumulative loss trigger or delinquency trigger is breached, further protecting the more senior classes.
- Excess monthly collections are available as credit enhancement to cover any interest shortfalls and to pay principal on the classes up to the cumulative realized losses to date. Any remaining excess collections not used to cover shortfalls in any month are released to the class XS holder.

We believe the following factors weaken the transaction:

- Approximately 6.99% (61 loans) of the mortgage loans (by aggregate stated principal balance) as of Oct. 1, 2021, were to borrowers who were either granted forbearance and/or deferment due to the outbreak of COVID-19. Also, 25 loans (3.33%) have been modified with balance capitalizations and interest rate reductions. Considering the risk of these forbearance/deferral/modified loans, we applied a forbearance-related adjustment factor of 1.05x at the pool level to account for this risk.
- Of the pool balance, 23.4% are loans on investment properties. Of these loans, 20.3% of the pool are DSCR loans. We applied an adjustment factor of 3.15x-6.00x to our loss estimates for these loans.
- Non-QM loans and QM rebuttable presumption loans, which have an increased risk of ability-to-repay (ATR) challenges and associated losses, make up 67.2% of the pool. We applied an adjustment to loss severities per our criteria to account for this risk.
- Income on 20.5% of the loans are coded as "other" documentation (e.g., DSCR). We view income verification using "other" documentation to be weaker than "full" documentation, and we consequently increased our loss coverages for these loans by applying an adjustment to the foreclosure frequencies.
- Of the pool balance, 36.9% were cash-out loans. We applied a 1.25x adjustment factor to our loss estimates for these loans.
- Approximately 60.3% of the pool is exposed to self-employed borrowers. We applied a 1.10x adjustment factor to our loss estimates for these loans, which amounted to 1.06x adjustment factor on the overall pool.
- The originator, loan sellers, and the sponsor are providing R&Ws for this transaction that are consistent with the set of representations published in our criteria. The R&W framework consists of relatively tight triggers for a mandatory breach review (any loan that was liquidated with a realized loss) and provides for an independent breach reviewer. Contrasting this is that the R&W providers may not have the financial capacity to cure or repurchase loans. Third-party due diligence conducted on 100% of the loans somewhat mitigates the weaknesses of the framework. As such, we applied a R&W adjustment that increased our loss expectations at all rating categories by a 1.10x factor.

Credit Analysis and Assumptions

Our analysis of the collateral pool considered a number of factors, including certain loan-level characteristics.

Documentation type

Underlying origination guidelines allow income verification using paystubs, W-2s or W-2 equivalents, tax returns, bank statements, profit and loss (P&L) statements, asset depletion, DSCR, or a combination thereof. Table 4 shows the breakdown of the documentation type used in our analysis.

Table 5

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 | 148 | 24.1 | - | 1.00 | 23.1 |
| Full (24+ months) excluding WVOE | 66 | 16.7 | - | 1.00 | 24.0 |
| Full (24+ months) WVOE | - | - | - | 1.00 | - |
| Full (12-23 months) excluding WVOE | 8 | 2.5 | - | 1.25 | 26.1 |
| Full (12-23 months) WVOE | - | - | - | 1.25 | - |
| Full (1-11 months) excluding WVOE | 2 | 0.4 | - | 1.50 | 56.1 |
| Full (1-11 months) WVOE | - | - | - | 1.50 | - |
| Alternative Documentation | | | | | |
| 24+ months (primary source) | | | | | |
| Business bank statements | 27 | 8.1 | 24.7 | 1.75 | 40.7 |
| Personal bank statements | 6 | 0.8 | 24.0 | 1.75 | 77.7 |
| Personal or business bank statements(i) | - | - | - | 1.75 | - |
| P&L statements(ii) | 1 | 0.1 | 24.0 | 1.75 | 30.2 |
| Additional alternative CPA letter/FN 24+ | - | - | - | 1.75 | - |
| 12-23 months (primary source) | | | | | |
| Business bank statements | 66 | 15.2 | 12.2 | 2.00 | 51.8 |
| Personal bank statements | 12 | 1.6 | 12.0 | 2.00 | 59.3 |
| Personal or business bank statements(i) | 2 | 0.2 | 13.3 | 2.00 | 63.4 |

Table 5

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

| | Loan count (no.) | Current balance (%) | Alternative income verification length (WA # of months) | Foreclosure frequency adjustment factors (x) | 'AAA' foreclosure frequency without pool adjustment factors (%) |
|------------------------------------------|------------------|---------------------|---------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------------|
| P&L statements(ii) | - | - | - | 2.00 | - |
| Additional alternative CPA letter/FN 24+ | - | - | - | 2.00 | - |
| 1-11 months (primary source) | | | | | |
| Business bank statements | - | - | - | 2.25 | - |
| Personal bank statements | - | - | - | 2.25 | - |
| P&L statements | - | - | - | 2.25 | - |
| Additional alternative CPA letter/FN 24+ | - | - | - | 2.25 | - |
| Other Documentation | | | | | |
| Other (DSCR) | 274 | 30.2 | - | 3.15-6.00 | 73.6 |
| Other (applied 0.00 DSCR) | 1 | 0.2 | - | 6.00 | 100.0 |
| Other (asset depletion) | - | - | - | 3.00 | - |

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

For loans that meet QM standards or for which income is otherwise underwritten in accordance with Appendix-Q of the Consumer Financial Protection Bureau's (CFPB) Regulation Z, we generally apply a documentation type adjustment factor of 1.00x. Eighty-three loans (10.6% by pool balance) meet these requirements.

Full documentation was used for fully verifying and calculating the borrower's or borrowers' qualifying income (e.g., pay stubs, W-2s, personal and business tax returns) on approximately 16.8% of the pool by balance. We applied a documentation-type adjustment factor ranging from 1.00x to 1.50x, depending on the length of the income verification. If multiple documentation types are used to verify income for multiple borrowers on a loan, we typically use the weaker documentation type in our analysis. For example, if a loan with multiple borrowers had one borrower's income verified using WVOE while the other borrower's income was verified using P&L statements, we would classify the documentation type as alternative.

Income on certain mortgage loans (52.2% by balance) were verified using alternative methods (e.g., bank statements, P&L statements, etc.). We view income verification using alternative documentation to be weaker than full documentation and, consequently, we increased our loss coverages for these loans by applying an adjustment to the foreclosure frequencies. We applied an adjustment factor of 1.75x-2.25x to the foreclosure frequencies depending on length of income verified. There are 331 loans categorized as alternative documentation.

The remaining loans in the pool (20.5% by balance) were underwritten using other documentation standards, such as asset depletion/qualification or DSCR loans. We classified these loans as

other documentation loans and applied a 3.00x-6.00x adjustment to the foreclosure frequencies.

Property cash flow underwriting

We considered the underwriting methods employed for the loans, given that the qualifying metrics do not use traditional borrower characteristics such as personal income and liabilities but instead rely, in certain cases, on the property's propensity to generate cash flow from tenants. The DSCR loans (approximately 20.3% by pool balance) are underwritten using a ratio (DSCR) generally calculated as rental income divided by mortgage payment liability (including taxes and insurance), or as rental income (subtracting taxes and insurance) divided by mortgage payment liability.

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

The weighted average DSCR adjustment factor for this pool was 1.51x, which we believe adequately addresses the additional risk of DSCR loans that rely on the property cash more than personal income and liabilities.

Table 5

Sponsor's Loan Program

| | Loan count (no.) | Current balance (%) | S&P Global Ratings' documentation type | Documentation type foreclosure frequency adjustment |
|-------------------------------------------------------|------------------|---------------------|----------------------------------------|-----------------------------------------------------|
| Property-focused (business purpose)--non-DSCR program | - | - | Other | 6.00x |
| Property-focused (business purpose)--DSCR program | 155 | 20.3 | Other | 3.15x-6.00x |

DSCR--Debt service coverage ratio.

The pool also includes three cross-collateralized loans that are all DSCR loans.

Cross-collateralized loans aggregate multiple properties under one loan and are typically made to experienced investors. The properties within a loan generally share homogenous features, such as loan purpose (rate or cash refinance), property type, geographic, and location. The DSCR for these loans is calculated by aggregating the qualifying rental income and expenses for all properties securing the loan. We split out the six cross-collateralized loans into 32 property-level constituents where appropriate for our analysis. The cross-collateralized loans allow the borrower to release the lien on any of the underlying properties by paying 120.00% of the original loan amount allocated to the specific property.

Table 6

Average 'AAA' And 'B' Foreclosure Frequencies For DSCR, Non-DSCR, And Cross-Collateralized DSCR Loans

| | Loan count (no.) | % of balance | Avg. DSCR | Avg. foreclosure frequency (%) ('AAA') | Avg. foreclosure frequency (%) ('B') |
|----------------------------------------|---------------------|--------------|-----------|-------------------------------------------|-----------------------------------------|
| DSCR (non-cross-collateralized) | | | | | |
| DSCR < 1 | 8 | 1.48 | 0.72 | 74.48 | 33.21 |
| 1 <= DSCR <= 1.27 | 71 | 10.08 | 1.11 | 50.80 | 11.96 |
| DSCR > 1.27 | 70 | 7.21 | 1.52 | 53.43 | 12.86 |
| Non-DSCR | 576 | 79.67 | -- | 39.85 | 9.08 |
| Cross-collateralized DSCR(i) | | | | | |
| DSCR < 1 | 0 | 0.00 | -- | -- | -- |
| 1 <= DSCR <= 1.27 | 3 | 0.55 | 1.25 | 75.13 | 16.28 |
| DSCR > 1.27 | 3 | 1.00 | 2.09 | 78.44 | 19.57 |
| Non-DSCR | 0 | 0.00 | -- | -- | -- |

(i)Six cross-collateralized loans are backed by 32 properties. DCSR--Debt service coverage ratio.

Updated valuations

In our analysis of the pool, we incorporated updated BPO valuations on 215 out of the 731 properties in the pool.

QM and ATR standards

The Consumer Financial Protection Bureau issued final regulations for mortgage loans with applications submitted on or after Jan. 10, 2014, specifying the standards for a qualified mortgage (see table 6).

Table 6

QM Breakout

| QM status | Pool balance (mil. \$) | % by pool balance |
|------------------------|------------------------|-------------------|
| QM/non-HPML | 0.9 | 0.41 |
| QM/HPML | 24.75 | 10.14 |
| Non-QM/ATR compliant | 164.06 | 67.18 |
| Not covered/ATR exempt | 54.39 | 22.27 |
| Total | 244.20 | 100.00 |

QM--Qualified mortgage. HPML--Higher-priced mortgage loan. ATR--Ability to repay.

Under the ATR rule (as more fully described in Appendix I of our criteria "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018), the originator and any assignee are jointly and severally liable for certain damages that may be incurred from noncompliance with the rule. For each of the loans in the pool subject to the rule, we

applied our criteria and determined that additional credit enhancement was needed at all rating categories.

Servicer advancing obligations

Including loans in forbearance/deferment, the servicer must advance delinquent P&I on any delinquent mortgage loan until the loan is either greater than 90 days delinquent (limited P&I advancing/stop-advance loan) or such P&I advance is deemed unrecoverable. In the event that the servicer fails to advance P&I on any loan that is not a stop-advance loan, including loans in forbearance/deferment, then the master servicer (Nationstar Mortgage LLC) is responsible for making those advances.

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

Borrowers with multiple loans/properties

Six borrowers (1.6% of the pool balance,) have multiple loans/properties in this pool. The highest exposure to any one borrower is one cross-collateralized loan backed by a total of 13 properties, or 0.50% of the pool balance. We did not make any additional adjustments to the loss coverage or the tail-risk analysis due to borrowers with multiple loans because the combined loss exposure to any one of these borrowers was not materially significant compared to the exposure to other single-loan borrowers.

Structural Features

Like other nonprime RMBS transactions, this transaction is a mix of pro rata and sequential structures; principal is paid pro rata among the senior classes (subject to passing the cumulative loss trigger and delinquency trigger tests) and then sequentially to the mezzanine and the subordinate classes. In the periods when a cumulative loss trigger or delinquency trigger test fails, principal is first used to pay any unpaid interest and interest shortfall amounts (to the extent not paid after allocation of the interest remittance amount) first concurrently to class A-1 and A-1X notes and then the class A-2 note, then pay principal sequentially to classes A-1 and A-2; and then pay any unpaid interest and interest shortfall amounts to the classes, followed by principal to that class until reduced to zero--sequentially to the A-3, M-1, B-1, B-2, and B-3 notes, in that order, with both interest and principal paid to a class before payments to the next class.

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. The delinquency and cumulative loss triggers may help protect the more senior classes in our analysis by allowing the payment mechanism to switch to sequential earlier, and thus preserve subordination and require less upfront credit enhancement.

The paying agent will make monthly distributions of interest from the interest remittances and will make monthly distributions of principal from principal remittances (see tables 7-9).

Table 7

Interest Payment Waterfall

| Priority | Payment |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Interest and interest shortfall amounts(i), first concurrently to class A-1 and A-1X notes, and then sequentially to the class A-2, A-3, M-1, B-1, B-2, and B-3 notes. |
| 2 | Any remaining amounts paid as part of monthly excess cash flows. |

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

Table 8

Principal Payment Waterfall

| Priority | Payment (if the cumulative loss and delinquency triggers pass) |
|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Unpaid interest and interest shortfall amounts, first concurrently to class A-1 and A-1X notes, and then sequentially to the class A-2 and A-3 notes. |
| 2 | Principal pro rata, based on class principal balance, to the class A-1, A-2, and A-3 notes until reduced to zero. |
| 3 | Unpaid interest and interest shortfall amounts to the class M-1 notes. |
| 4 | Principal to the class M-1 notes until reduced to zero. |
| 5 | Unpaid interest and interest shortfall amounts to the class B-1 notes. |
| 6 | Principal to the class B-1 notes until reduced to zero. |
| 7 | Unpaid interest and interest shortfall amounts to the class B-2 notes. |
| 8 | Principal to the class B-2 notes until reduced to zero. |
| 9 | Unpaid interest and interest shortfall amounts to the class B-3 notes. |
| 10 | Principal to the class B-3 notes until reduced to zero. |
| 11 | Any remaining amounts paid as part of monthly excess cash flows. |
| Priority | Payment (if the cumulative loss or delinquency trigger fails) |
| 1 | Unpaid interest and interest shortfall amounts concurrently to the class A-1 and A-1X notes. |
| 2 | Unpaid interest and interest shortfall amounts to the class A-2 notes. |
| 3 | Principal to the class A-1 notes until reduced to zero. |
| 4 | Principal to the class A-2 notes until reduced to zero. |
| 5 | Unpaid interest and interest shortfall amounts to the class A-3 notes. |
| 6 | Principal to the class A-3 notes until reduced to zero. |
| 7 | Unpaid interest and interest shortfall amounts to the class M-1 notes. |
| 8 | Principal to the class M-1 notes until reduced to zero. |
| 9 | Unpaid interest and interest shortfall amounts to the class B-1 notes. |
| 10 | Principal to the class B-1 notes until reduced to zero. |
| 11 | Unpaid interest and interest shortfall amounts to the class B-2 notes. |
| 12 | Principal to the class B-2 notes until reduced to zero. |
| 13 | Unpaid interest and interest shortfall amounts to the class B-3 notes. |
| 14 | Principal to the class B-3 notes until reduced to zero. |

Table 8

Principal Payment Waterfall (cont.)

15 Any remaining amounts paid as part of monthly excess cash flows.

Table 9

Monthly Excess Cash Flow Waterfall

| Priority | Payment |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | In an amount up to the amount of any realized loss allocation amounts for such distribution date, sequentially to the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 notes, in reduction of the class principal balances thereof, until the note amount of each class is reduced to zero. |
| 2 | Up to the amount of any cumulative applied realized loss amounts, sequentially to the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 notes, in reduction of the class principal balances thereof, until the note amount of each class is reduced to zero; and then sequentially to the class A-1, A-2, A-3, M-1, B-1, B-2, and B-3 notes to reimburse such classes for applied realized loss amounts previously allocated thereto. |
| 3 | From amounts otherwise distributable to the class XS notes, to the net WAC shortfall reserve account, up to the aggregate net WAC shortfall amount, first concurrently to the class A-1 and A-1X notes, and then sequentially to the class A-2, A-3, M-1, and B-1 notes. |
| 4 | To the class XS notes. |
| 5 | To pay pro rata, any fees, expenses or indemnification amounts not previously paid due to application of the annual cap. |
| 6 | Any remaining amounts as set forth in the indenture. |

WAC--Weighted average coupon.

The interest remittance amount includes the interest the servicer collected from or advanced on behalf of borrowers, the interest portion of liquidation proceeds net of the servicer's expenses, the interest portion of subsequent recoveries, the interest portion received in connection with an optional redemption, the interest portion of any repurchase price amount, and any servicer or master servicer compensating interest payment, less aggregate expense fees (servicing fees, master servicing fees, indenture trustee fees, owner trustee fees, custodial fees, reviewer fees), reimbursable advances, and extraordinary trust expenses subject to the annual cap. It should also be noted that fees are calculated off of the interest-bearing principal balance (as opposed to the total unpaid principal balance).

Principal remittance amounts include scheduled principal payments together with principal advances, unscheduled principal, the principal portion of liquidation proceeds net of servicer expenses, the principal portion of subsequent recoveries, the principal portion received in connection with an optional redemption, and the principal portion of any repurchase price amount, less certain fees to the extent not paid from interest collections, reimbursable advances, and extraordinary trust expenses subject to the annual cap.

Interest on classes A-1, A-1X, A-2, A-3, M-1, and B-1 is based on the lower of the coupon on the notes and the net WAC rate. In line with our criteria "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018, and associated guidance "Guidance: Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published April 17, 2020, our preliminary ratings address the lower of these two rates. For classes B-2 and B-3, interest is equal to the net WAC rate. The net WAC rate is defined as the weighted average of the net mortgage rates of the mortgage loans, weighted on the basis of their stated principal balances excluding any deferred amount as of the first day of the related due period minus the capped trust expense rate for such distribution date.

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Under the transaction documents, the issuer can defer interest payments on these notes. A failure to pay the interest amounts due on the notes will result in the interest being deferred. Deferred interest (interest shortfall amounts) accrues interest at the lower of the fixed rate and the net WAC rate for classes A-1, A-2, A-3, M-1, and B-1, and at the net WAC rate for classes B-2 and B-3. Our preliminary ratings on the classes address all payments of P&I (including interest shortfall amounts) by the notes' final maturity date.

Our preliminary ratings, however, do not address the payment of the net WAC shortfall amounts (i.e., the difference between the coupon and the net WAC cap where the coupon exceeds the net WAC cap). These amounts are subordinated in the payment priority. In our view, neither the initial coupons on the notes nor the initial net WAC rates are de minimis, and nonpayment of the net WAC shortfall amounts is not considered an event of default under the transaction documents. Therefore, we do not need to consider whether these net WAC shortfall amounts are paid in our cash flow analysis.

The mezzanine class and then the subordinate classes are paid principal sequentially after all senior classes have been paid. Unlike the credit enhancement seen in shifting-interest RMBS structures, which may deplete due to scheduled and prepaid principal paid to the subordinate classes, the credit enhancement provided by the mezzanine and the subordinate classes in this transaction do not deplete because no principal payments are made to these classes unless they are the most senior class 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 12.95% 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 10 and 11) 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 10

Cumulative Loss Trigger Event

| Distribution date occurring in the following periods | Applied realized loss amounts since cut-off date (as a % of the cut-off date pool balance) |
|------------------------------------------------------|--------------------------------------------------------------------------------------------|
| December 2021 through November 2024 | 2.0 |
| December 2024 through November 2025 | 3.0 |
| December 2025 through November 2026 | 4.0 |
| December 2026 and thereafter | 7.0 |

Table 11

Delinquency Trigger Event

| Distribution date occurring in the following periods | Six-month average of 60-plus day delinquent loans plus loans modified in past 12 months (as a % of the current pool balance) |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| December 2021 through November 2023 | 10.0 |

Table 11

Delinquency Trigger Event (cont.)

| Distribution date occurring in the following periods | Six-month average of 60-plus day delinquent loans plus loans modified in past 12 months (as a % of the current pool balance) |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| December 2023 through November 2024 | 15.0 |
| December 2024 through November 2026 | 20.0 |
| December 2026 and thereafter | 25.0 |

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

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

Geographic Concentration

S&P Global Ratings analyzes the pool's geographic concentration risk based on the concentrations of loans in each of the CBSAs 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 roughly 25.7% of the aggregate pool. Because of this geographic concentration, we applied a Herfindahl-Hirschman Index adjustment factor (a concentration measure based on the sum of the squared CBSA concentrations related to a benchmark concentration) of 1.00x to our base loss coverage estimate. Moreover, in our analysis, we adjust the loss severities on loans for the level of over/under valuation in the property market by comparing the long-term average of the ratio of house prices to income to the current values of the same.

Table 12

Geographic Concentration

| CBSA code(i) | CBSA | State | % by balance |
|--------------|-----------------------------------|-----------------------|--------------|
| 35614 | New York-Jersey City-White Plains | New York – New Jersey | 8.57 |
| 31084 | Los Angeles-Long Beach-Glendale | California | 5.52 |
| 35004 | Nassau County-Suffolk County | New York | 4.00 |
| 38060 | Phoenix-Mesa-Chandler | Arizona | 3.86 |
| 26420 | Houston-The Woodlands-Sugar Land | Texas | 3.70 |
| Top 5 | -- | -- | 25.67 |

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

Large Loans And Tail Risk Considerations

As the number of loans in the transaction decreases, the effect of a single loan's losses becomes greater. If conditional prepayment rates are slow and collateral pool losses are not realized until later in a transaction's life (back-loaded losses), pro rata pay mechanisms can then leave the senior notes exposed to event risk later in the transaction's life (see "Older RMBS Transactions Face Increased Tail Risk As Their Pools Shrink," published Aug. 9, 2012). To mitigate this risk, the transaction documents typically 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. BARC 2021-NQM1 does not explicitly provide a credit enhancement floor; however, due to the sequential payment mechanism whereas the subordinate classes, which make up 12.95% of the capital structure, do not receive any principal until the senior classes are paid down, the 'AAA (sf)', 'AA (sf)', and 'A (sf)' rated classes effectively have a floor of 12.95% initially. Although, over time, subordination can be depleted due to realized losses, the effective floor to the more-senior classes can increase when the credit enhancement trigger, cumulative loss trigger, or delinquency trigger has been violated, making the payment priority fully sequential.

To analyze the appropriateness of this effective credit enhancement floor, we use an approach outlined in "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018. 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.

Mortgage Operational Assessment (MOA)

In our view, mortgage loan performance may reflect certain qualitative aspects of an originator's or aggregator's operational framework, track record, and practices, including how they have changed over time. Therefore, we incorporate our assessment of the quality of the transaction's originators or aggregator based on our evaluation of its management and organization, origination process and underwriting/loan purchase and aggregation, and internal controls into our loss coverage analysis as described below. When available, we will also assess historical loan performance. (See paragraphs 149–156 of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018).

The transaction pool is comprised of 93.73% of loans originated by Carrington and 6.27% purchased from Invigorate. For the loans originated by Carrington, we applied a loss coverage adjustment factor of 1.00x per our MOA of Carrington's origination process. To determine an appropriate MOA adjustment factor for loans purchased from Invigorate, we performed a transaction-specific review of Barclays' aggregation platform. Based on our transaction specific review, a 1.05x loss coverage adjustment factor was applied to these loans.

Carrington MOA

Established in 2007 and headquartered in Anaheim, Calif., Carrington is a wholly owned subsidiary of Carrington Holding Co. LLC. A fully integrated originator and servicer, Carrington is fully licensed in 48 states with the exception of Massachusetts and North Dakota, plus the territories of Washington D.C. and Puerto Rico, to originate residential mortgage loans and is fully licensed in all states and territories to service residential mortgage loans. For the years 2019 and 2020, the company originated \$7.3 billion and \$8.2 billion in loans through wholesale (broker), retail, and

correspondent channels.

According to Carrington, the company is focused on "serving the underserved" by helping borrowers who may not fit the prime conforming conventional mold but who are, in the company's opinion, creditworthy. The vast majority of its lending activity is through government agency loans, including the Federal Housing Administration, U.S. Department of Veterans Affairs, and U.S. Department of Agriculture loans, as well as through their non-agency programs launched in January 2018. In 2020, about 65% of Carrington's production came from Carrington's retail channels, 32% came from its wholesale channel, and the rest came from its correspondent channel.

Our overall AVERAGE ranking reflects our qualitative and quantitative review of Carrington. Our qualitative review is based on our assessment of three primary focus areas covered during the operational review:

- Management and organization, which includes risk management and financial position;
- Loan purchase and origination, which includes property valuation processes; and
- Internal controls, which encompasses counterparty reviews, 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, early payment defaults (EPDs), and repurchases.

Our overall AVERAGE ranking is based on our opinion of the company's knowledgeable and experienced management team, servicing retention on a vast majority of its loans, solid risk management framework and culture, comprehensive internal control processes, and limited non-QM loan performance history.

Our ABOVE AVERAGE qualitative subranking reflects our view of these key factors:

- A highly experienced, well-tenured senior management team;
- A long operational track record with measured growth;
- No material litigation outstanding;
- Comprehensive internal control processes and procedures that meet or exceed industry and regulatory standards, including robust pre-purchase and post-purchase reviews;
- An independent internal risk department providing a high degree of oversight with multiple specialized risk teams and compliance functions;
- An experienced underwriting management team averaging 15 years of industry experience;
- A well-defined exception approval process; and
- Robust appraisal valuation practices.

These strengths are partially offset by certain weaknesses:

- Limited loan performance history in the non-QM space (the company began originating non-QM loans in the first quarter of 2018);
- Evolving business lines coupled with new products; and
- An elevated turnover rate in senior management.

Our AVERAGE quantitative subranking is based on our review of loan performance data provided

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by Carrington and external sources. Given that the company started originating non-QM loans in January 2018, the company has limited performance history, including no origination and no performance data during a housing cycle downturn. As of 2018, Carrington's total portfolio consists of approximately 95% government agency originations and 5% non-agency originations. We largely based our AVERAGE quantitative subranking on the 95% of the portfolio that has five years of performance data. For Carrington's agency loan programs, historical delinquencies, cumulative losses, and EPDs are in line with our expectations relative to their credit profile for post-crisis residential mortgage originations.

Transaction-specific MOA on Barclays

Barclays restarted aggregating loans in 2021, with primarily monthly programmatic flow from Carrington. Loans purchased from Carrington are underwritten to Carrington guidelines with no overlays. Loans purchased from Invigorate in this pool are all DSCR loans underwritten to Barclays' DSCR guidelines.

Barclays conducts pre-purchase quality control on 100% of the loans on credit, valuation, and compliance. The desk conducts internal controls and has discretion on accepting exceptions. All exceptions must be justified and documented. Barclays also has a formal acquisition management process.

Based on the results of our MOA, we applied an overall MOA loss coverage adjustment factor for the aggregate pool of 1.00x.

Third-Party Due Diligence Review

The third-party due diligence providers (AMC Diligence LLC, Consolidated Analytics Inc., and Recovco Mortgage Management LLC)--all of which are on our list of reviewed providers--performed due diligence on 100% of the loans in the transaction. Their review encompassed credit (underwriting) compliance, property valuations, regulatory compliance (as applicable), and data quality.

Some loans fell within the scope of the TRID rule. For these loans, the third-party firms followed the Structured Finance Association 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). In accordance with our criteria, we adjust our loss expectations based on our view of the firms' findings (see Appendix III of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018).

We generally expect the scope of the due diligence review for seasoned and reperforming loans to incorporate a title and tax review, as well as a custodial document review, as outlined in our criteria. With respect to the seasoned collateral in this pool (29.45%), Mortgage Connect performed a title search. Our review of the reports found certain loans with subordinate liens outstanding, delinquent taxes, and/or municipal liens outstanding. The title search also identified certain loans with unreleased senior liens outstanding prior to the origination of the subject loans, but clean title policies without any exceptions were obtained at origination and remain in effect. The custodian for these seasoned loans is Wells Fargo Bank N.A., which is unchanged from the time of securitization. A preliminary inventory indicated that there were certain loans with uncertified/certified of recorded/unrecorded original documents but otherwise there were no material deficiencies. Given the limited seasoning of the loans beyond 24 months, we did not view the results of the seasoned loan review as material and, therefore, did not make any additional adjustments to our analysis.

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

R&Ws

Our review of the R&Ws for BARC 2021-NQM1 focused on whether the representations made by the R&W providers were substantially consistent with the set of representations we published as part of our criteria (see Appendix IV of "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018). In addition, our review of the R&W framework accounts for automatic review triggers, knowledge qualifiers, sunset provisions, gap reps, and enforcement mechanisms. If the R&Ws and framework do not address the issues in our published R&W framework, we will determine whether we believe it is appropriate to assess additional credit enhancement. Lastly, we considered the R&W providers' ability to fulfill their obligations in the event of a breach.

The collateral pool consists of loans from originators/loan sellers (CMS, SHMAC and Invigorate) that were sold to the mortgage loan seller, which is an affiliate of the depositor. Each originator/loan seller made the R&Ws for the loans they contributed to the transaction as of the date such originator/loan seller transferred the related mortgage loans to the mortgage loan seller pursuant to the related purchase agreement, for which R&Ws may in some circumstances be as of the origination date for the related mortgage loan. The R&Ws made by the originator/loan sellers will be transferred to the trust via the related assignment, assumption, and recognition agreement. With respect to a limited set of R&Ws that are made by each originator/loan seller as of the date the related mortgage loans was transferred to the mortgage loan seller pursuant to the related purchase agreement, the mortgage loan seller will represent that no action or event has taken place between the date that such originator/loan seller made the applicable R&W and the cut-off date or the closing date, as applicable (the gap period), to make such R&W untrue. In addition, the mortgage loan seller will make certain R&Ws with respect to the mortgage loans, solely with respect to the period commencing on the date the related mortgage loan was transferred to the mortgage loan seller and concluding on the cut-off date or closing date, as applicable, as of the cut-off date or closing date (the gap period). We note that the sponsor will not backstop any of the originator or loan sellers if they cannot repurchase mortgage loans.

Despite the relatively tight review triggers for reviewing a loan, the existence of knowledge qualifiers and sunset clauses make the overall framework weaker. Specifically, all the loans are subject to a fraud R&W that sunsets 36 months after the closing date (extended to another 24 months if certain delinquency events occur). In addition, the R&W providers may have limited repurchasing ability. As such, we applied a 1.10x loss coverage adjustment to compensate for these risks. We believe this adjustment is appropriate in the context of the due diligence performed on the loans and the collateral's credit quality.

Attributes of the R&W framework

We reviewed the individual loan-level R&Ws made by each originator/loan seller R&W provider and determined they are generally consistent with the R&W language reflected in our criteria. In addition, we evaluated the strength of the R&W framework and considered whether any breach could have a materially adverse impact on the interests of the transaction's noteholders.

Sunset

There are certain R&Ws that contain sunset provisions. Two of these relate to underwriting guidelines (adherence to the underwriting guidelines and income/asset/employment verification) and one relates to fraud (excluding conspiratorial fraud involving multiple persons). The sunset period is 36 months from the securitization date, contingent upon the loan's performance such that, if the loan becomes 30-days delinquent two or more times or 60-days delinquent one time during the first 36 months since issuance, the sunset period for that loan becomes 60 months. We believe that these sunset provisions are a weakness in the framework. However, our research indicates that most R&W putbacks occur in the first few years after origination, since borrowers' inability to pay manifest in short order.

Knowledge qualifiers

Certain R&Ws contain knowledge qualifiers pertaining to the originator and/or mortgage loan seller. To the extent the originator and/or mortgage loan seller did not have knowledge of the condition set forth in a particular R&W, there will be no breach of the applicable R&W and the related originator and/or mortgage loan seller will have no obligation to provide a breach remedy.

Review triggers

A review trigger occurs when any mortgage loan becomes a reviewable liquidated mortgage loan as long as no review preemptive factor exists. A reviewable liquidated mortgage loan is a liquidated mortgage loan for which the related liquidation proceeds are less than the outstanding principal balance of the related mortgage loan together with any outstanding advances and any other fees and expenses payable to any transaction party with respect to such liquidated mortgage loan. A review preemptive factor occurs with respect to any mortgage loan and review trigger if a determination is made by the file reviewer that the file reviewer has already performed a review in respect of such mortgage loan for the same review trigger, or that the applicable review trigger that resulted in a review was such mortgage loan becoming a reviewable liquidated mortgage loan but no applied realized loss amounts were allocated to the noteholders or no interest shortfalls have occurred, respectively, in connection with such mortgage loan, or the realized loss amount is less than the related review fee. A review preemptive factor also occurs when a remedy is not available as a result of a statute of limitations defense with respect to any claim based on a breach of mortgage loan R&Ws.

File (breach) reviewer

Pentalpha Surveillance LLC (Pentalpha), as an independent party, will act as the R&W file reviewer. The reviewer shall have sole authority to determine whether a breach has occurred. Pentalpha is compensated a file reviewer fee which equates to \$20,100 annually through December 2026 and \$15,000 annually thereafter, and sunsets once the collateral balance reaches 20% of its original amount. Having an independent breach reviewer is a positive feature of the R&W framework, in our view.

Review process

The master servicer will notify the file reviewer to undertake a review of any mortgage loan that

becomes a reviewable liquidated mortgage loan as long as no review preemptive factor exists. The file reviewer will perform each test individually for the related review trigger and is not responsible for making a determination as to the overall quality of any mortgage loan. If any test performed for a particular R&W receives a grade of "test failure," the file reviewer will determine in its sole judgment whether such test failure constitutes a material test failure. A material test failure is any test failure where the breach reviewer must determine whether the defect materially increased the loan's credit risk at origination; resulted in, or will result in, a higher loss at liquidation; increased the loan's servicing compliance risk; or impaired the payment's or loan's enforceability. The reviewer shall also consider any compensating factors, and other facts may cause any actual or projected default or loss considering knowledge of the defect.

Enforcement mechanisms

Upon a determination by the file reviewer that a material test failure exists with respect to any test and mortgage loan, the master servicer will inform the related R&W provider. Upon receipt of the notice, the R&W provider will then have 60 days to remedy any breaches. If the R&W provider disputes the decision, they may provide evidence to support its contention that the related mortgage loan is not required to be remedied.

Arbitration

If the R&W provider or the controlling holder (or, if the controlling holder determines not to exercise any such right in the first instance, a review quorum of noteholders representing at least 25% of the voting interests of the noteholders) disputes the breach reviewer's final determination of a material test failure, the resolution of the dispute will be by arbitration. Any such dispute and any matters related to such dispute will be finally resolved by binding arbitration, and such binding arbitration will be the sole mechanism to resolve any such dispute or such related matters. The decision of the arbitrator will be final and binding. The only parties to an arbitration proceeding will be the issuer and applicable R&W provider. Initially, the R&W provider and issuer will bear their own costs and each pay 50.0% of the costs and expenses of the arbitrator and the arbitration proceeding. However, the non-prevailing party (as determined by the arbitrator) will bear all costs of arbitration and reimburse the prevailing party for its related arbitration costs up to \$25,000.

Framework Strengths

- An automatic review is triggered for any loans that were liquidated with realized loss; however, the review is subject to review-preemptive factors.
- There is an independent breach reviewer.
- There is a holistic repurchase price.
- All loans received third-party due diligence.

Framework Weaknesses

- There are "knowledge qualifiers" in certain R&Ws, and the enforcement and remedy mechanisms do not provide curative language.

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- There are sunset provisions in certain R&Ws that limit the time frame within which investors may seek remedies.
- The R&Ws are subject to "material and adverse effect" standards, which can be ambiguous and subjective.
- The R&W providers may not have the financial capacity to repurchase or cure any breaches.

Cash Flow And Scenario Analysis

We reviewed the transaction structure and performed a cash flow analysis to simulate various rating stress scenarios (see table 13) to determine the ratings for each class consistent with our criteria, accounting for the available credit enhancement. We analyzed various scenarios for each rating category/level, 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;
- WAC deterioration stresses;
- Extraordinary trust expense stresses; and
- Delinquency assumptions to stress liquidity for potential forbearance.

Table 13

Cash Flow Assumptions

| | | Scenario | | | | | |
|--------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|----------|--------|-------|-------|-------|-------|
| | | AAA | AA | A | BBB | BB | B |
| Recovery lag (mos.) | | 24 | 24 | 24 | 24 | 24 | 24 |
| Prepayments (%)⁽ⁱ⁾ | | | | | | | |
| Low CPR | | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 |
| High CPR | | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 | 20.00 |
| Scenario 1: delinquency curve | Standard delinquency curve for testing triggers without cash flow stress. | | | | | | |
| Scenario 2: delinquency curve | Delinquencies at 35% for first the six months to stress liquidity and triggers, followed by standard delinquency curve to test triggers. | | | | | | |
| Extraordinary trust expenses (% of capped amounts) ⁽ⁱⁱ⁾ | | 100.00 | 100.00 | 95.00 | 40.00 | 30.00 | 17.50 |
| Foreclosure frequency (%) | | 47.40 | 42.05 | 34.10 | 26.42 | 18.68 | 11.22 |
| Loss severity (%) | | 52.43 | 46.73 | 36.07 | 29.90 | 25.16 | 20.94 |
| Loss coverage (%) | | 24.85 | 19.65 | 12.30 | 7.90 | 4.70 | 2.35 |

⁽ⁱ⁾Using a standard prepayment convention. ⁽ⁱⁱ⁾Applied monthly between periods 13 and 60. CPR--Conditional prepayment rate. N/A--Not applicable.

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 shortfall amounts) resulting from any missed interest payments on the notes 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 rated class in the transaction is enhanced to a degree consistent with the assigned preliminary ratings (see table 14).

Due to the limited P&I advance obligation, we did not apply our typical servicer stop-advance stresses. Instead, 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 shortfall amounts) by the final maturity date on the rated classes.

Table 14

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) | 69.35 | 30.65 | 24.85 | 5.80 |
| A-2 | AA (sf) | 6.80 | 23.85 | 19.65 | 4.20 |
| A-3 | A (sf) | 10.90 | 12.95 | 12.30 | 0.65 |
| M-1 | BBB (sf) | 5.05 | 7.90 | 7.90 | 0.00 |
| B-1 | BB (sf) | 3.90 | 4.00 | 4.70 | (0.70) |
| B-2 | B (sf) | 2.35 | 1.65 | 2.35 | (0.70) |
| B-3 | NR | 1.65 | 0.00 | N/A | N/A |

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

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 to 157 basis points over 10 years and remains at that level to address the potential for the pool's WAC to decline as higher coupon loans prepay or default and thus stress the excess spread.

Interest stresses

In this transaction, extraordinary trust expense payments reduce the net WAC rate, which effectively allocates the extraordinary trust expenses pro rata across all senior, mezzanine, and subordinate notes by reducing their interest payments by the amount of the extraordinary trust expenses paid (subject to the annual cap). Although the extraordinary expenses are passed through as reduced contractual interest due to noteholders, we ran these expenses at their capped amounts. We did this to test any impact on the securities due to the dependence on excess spread as a form of credit enhancement and the presence of certain structural features, such as

limited P&I advancing, and because interest payments on the securities are deferrable.

We also believe the weighted average servicing fee rate of 40.5 basis points (42.0 basis points per annum for Carrington loans and 12.5 basis points per annum for Fay loans) provided in the documents is relatively low for non-QM loans and, in our opinion, might not be adequate to attract quality servicers should the servicing function need to be transferred. In situations where the successive servicer charges a higher fee than 40.5 bps, it will reduce the funds available to distribute to the notes, i.e. reducing excess spread as soft credit enhancement. We believe a fee rate of 50 basis points would be sufficient to allow a successful transfer if necessary. As such, we ran our cash flow stresses by modelling an aggregate servicing fee of 50 basis points and concluded that this covered the likelihood of the potential reductions to the noteholders at our preliminary rating levels.

Imputed Promises Analysis

Per our criteria "Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published Feb. 22, 2018, and associated guidance "Guidance: Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later," published April 17, 2020, when rating U.S. RMBS transactions where credit-related events can reduce interest owed to the tranches across the capital structure, rather than an allocation of such credit-related loss to the available credit support, we impute the interest owed to the noteholders. WAC deterioration that occurs because of defaults, repurchases, or prepayments is not considered credit-related; therefore, it is not considered as part of this analysis.

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

Consistent with our criteria, we assumed that 50.0% of the loans projected to default would be modified, which, when added to the extraordinary trust expenses, resulted in a maximum PIRA on the rated notenotes that is significantly below the 4.5% threshold. We stressed extraordinary trust expenses by the relevant extraordinary expense application factor for four years, between payment period 13 and 60. Based on the results of our analysis, there was no impact to the MPR on the notenotes.

Historically, we have observed that extraordinary trust expenses have been minimal when they do occur and have been extremely limited in pre-2009 RMBS transactions. We continue to expect their actual occurrence in post-2009 transactions to be rare.

Operational Risk Assessment

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

As provided in the operational risk criteria, 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.

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

Related Criteria

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- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | Legal: U.S. Structured Finance Asset Isolation And Special-Purpose Entity Criteria, May 15, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Assumptions Supplement For Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later, Feb. 22, 2018
- Criteria | Structured Finance | RMBS: U.S. Residential Mortgage Operational Assessment Ranking Criteria, Feb. 22, 2018
- Criteria | Structured Finance | RMBS: Methodology And Assumptions For Rating U.S. RMBS Issued 2009 And Later, Feb. 22, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Global Methodology For Rating Interest-Only Securities, April 15, 2010
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- S&P Global Ratings Definitions, Nov. 10, 2021
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- Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off, Sept. 23, 2021
- S&P Global Ratings Publishes List Of Third-Party Due Diligence Firms Reviewed For U.S. RMBS As Of Sept. 10, 2021, Sept. 10, 2021
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- Credit Rating Model: LEVELS Model For U.S. Residential Mortgage Loans, Aug. 5, 2019
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- Credit Rating Model: Intex RMBS Cash Flow Model, April 7, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Standard & Poor's Comfortable With SFIG Draft Proposal Regarding TRID Due Diligence, April 25, 2016
- Older RMBS Transactions Face Increased Tail Risk As Their Pools Shrink, Aug. 9, 2012

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