Structured Finance

PRESALE REPORT

This presale report is based on information as of June 14, 2001. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Please call Standard & Poor's at (44) 20-7826-3540 for the final ratings when assigned.

Profile

Expected closing date:
June 28, 2001.

Collateral:
Unsecured personal loans, unsecured retail credit loans, auto loans, and a pool of second-ranking mortgages secured over properties located in England, Scotland, and Wales ("secured loans").

Underwriter:
Royal Bank of Scotland PLC.

Seller:
Colonial Finance (U.K.) Ltd., Paragon Personal Finance Ltd. and Paragon Car Finance Ltd.

Administrator:
Paragon Finance PLC.

Trustee:
Citicorp Trustee Co. Ltd.

Hedging counterparty:
Royal Bank of Scotland PLC.

Transaction account provider:
National Westminster Bank PLC.

Supporting ratings:
Royal Bank of Scotland PLC (AA-/Stable/A-1+) and National Westminster Bank PLC (AA-/Stable/A-1+).

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Paragon Personal and Auto Finance (No. 1) PLC

£251 million floating-rate notes

Preliminary ratings as of June 14, 2001

Class	Preliminary rating*	Preliminary amount (Mil. £)	Recommended credit support (%)
A	AAA	178.21	38.17
B	A¶	51.45	17.67
C	BBB¶	21.34	9.17

*The rating of each class of securities is preliminary and subject to change at any time.
¶Interest can be deferred for the class B and C notes. The rating addresses timely payment of interest and principal with the proviso that interest can be deferred on the B and C notes.

Rationale

The preliminary ratings assigned to the class A, B, and C notes to be issued by Paragon Personal and Auto Finance (No. 1) PLC reflect the ability of the administrator to perform its role in this transaction, the sound legal structure of the transaction, and the sound payment structure and cash flow mechanics of the transaction.

A further key consideration is the level of support afforded each class of notes as follows:

- Strong protection for class A noteholders provided by a combination of the subordinate class B notes (20.5% of the notes issued), the subordinate class C notes (8.5% of the notes issued), the first loss fund (4.3% of the notes issued), overcollateralization (4.87% of the notes issued), and excess spread to cover credit losses and income shortfalls;
- Strong protection for class B noteholders provided by a combination of the subordinate class C notes, the first loss fund, overcollateralization, and excess spread to cover credit losses and income shortfalls; and
- Strong protection for class C noteholders provided by the first loss fund, overcollateralization, and excess spread to cover credit losses and income shortfalls.

Final ratings are expected to be assigned on the closing date subject to satisfactory review of all documentation and legal opinions.

Strengths, Concerns, and Mitigating Factors

Strengths

The transaction's strengths that influenced the rating decision are:

- A cash reserve funded to 4.3% at closing;
- Overcollateralization of 4.87% of the notes issued; and
- The levels of excess spread in the transaction.

Concerns

The concerns highlighted during the rating process are:

- Mixed-asset collateral and the concentrations of these asset types;
- A substitution period enabling further assets to be added to the pool;
- The diversity of the products included in the transaction;
- The higher-than-average default levels of some of the product types in the pool;

- The Consumer Credit Act (CCA) issues on the personal and retail loans purchased from Colonial Finance (U.K.) Ltd.;
- The inclusion of auto loans with balloon payments and residual value risk;
- Deferral of interest on the subordinated notes;
- Pro-rata amortization of the subordinated notes; and
- An amortizing cash reserve.

Mitigating Factors

The concerns highlighted were mitigated by the following factors:

- Standard & Poor's cash flow stresses adapted to take account of the different asset types;
- Portfolio concentration limits incorporated to manage the breakdown of the portfolio through the substitution period;
- Tight substitution parameters in place, including an asset test;
- Legal analysis and sizing of an amount in the cash reserve to cover CCA issues;
- A £0.5 million limit on the amount of auto loans with balloon payments;
- Deferral of interest incorporated in the cash flow model; and
- Pro-rata amortization of the subordinated notes and amortization of the cash reserve within Standard & Poor's criteria.

Main Transaction Parties

Paragon Personal and Auto Finance (No. 1) PLC (Issuer)

The issuer is a public company incorporated under the laws of England and a wholly owned subsidiary of The Paragon Group of Companies PLC. The ordinary shares of The Paragon Group have been admitted to the official list of the London Stock Exchange.

The issuer is a special-purpose entity (SPE) that complies with SPE criteria. It has one independent director on its board.

Citicorp Trustee Co. Ltd. (Trustee)

The trustee's role is to supervise the administrator in its administration of the issuer under the terms of the transaction and to generally represent and protect the interests of the noteholders. The trustee alone will be able to enforce the security under the terms and conditions of the notes and it will always have to act in the best interests of the noteholders.

Royal Bank of Scotland PLC (Swap Counterparty)

Royal Bank of Scotland will act as the swap counterparty in this transaction. The swap agreements will contain the appropriate Standard & Poor's swap replacement downgrade language.

Paragon Finance PLC (Administrator)

As administrator, Paragon Finance will be responsible for the day-to-day administration and ongoing servicing of the underlying portfolio. Paragon Finance is also responsible for producing all reports and accounts for the trustee and Standard & Poor's in connection with the performance of the assets.

Colonial Finance (U.K.) Ltd., Paragon Personal Finance Ltd., and Paragon Car Finance Ltd. (Sellers)

Standard & Poor's has conducted a review of the origination, underwriting, and valuation processes of The Paragon Group as originator/servicer of the loans. A review of Colonial Finance (U.K.) Ltd. was not conducted as these loans were purchased from Colonial. A review of the collection and default management procedures of Paragon Finance (as administrator) was carried out in tandem.

Such a review is an integral part of the corporate overview undertaken during the rating process of any transaction and is maintained throughout the life of the transaction. Standard & Poor's is satisfied that Paragon Finance is capable of performing the functions necessary to ensure the collection of borrower payments and management of the arrears and repossession cases.

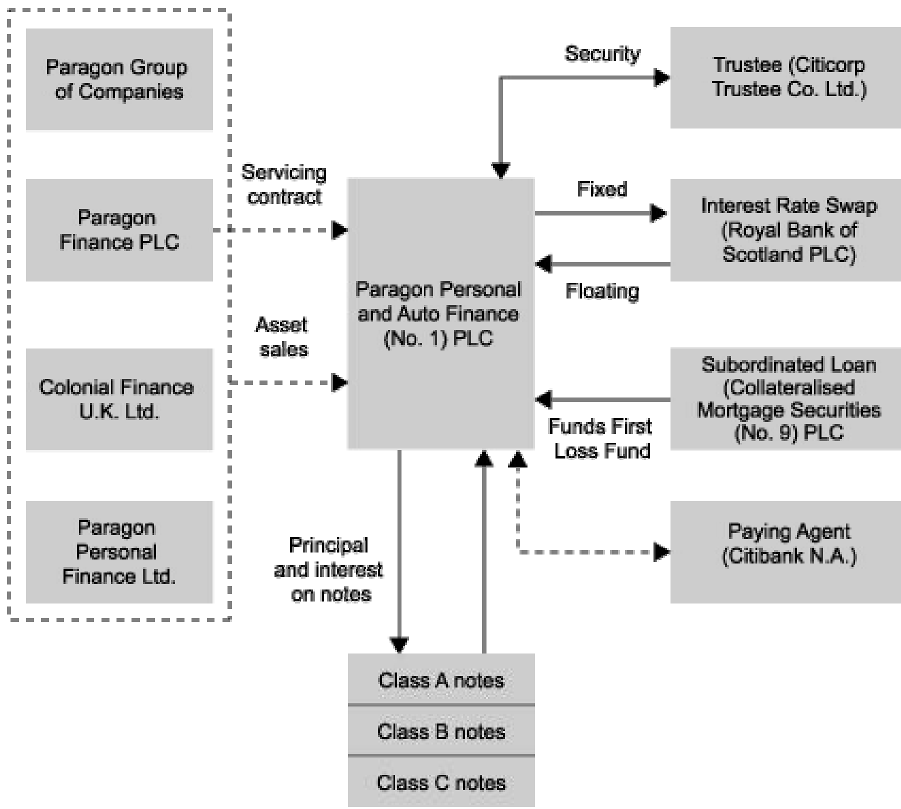
National Westminster Bank PLC (Transaction Account Provider)

National Westminster Bank will provide the transaction account for this transaction. Borrowers make payments either into collection accounts provided by National Westminster Bank or Midland Bank or directly into the transaction account. The money credited to the collection accounts will be swept to the transaction account on a daily basis.

Transaction Structure

On the closing date, the issuer will use the proceeds from the issuance of the notes to acquire the loans from the sellers (*see chart*). The loans originated by Colonial have already been purchased by the issuer. For the first four years of the transaction the issuer may purchase further loans subject to certain criteria (*see below*).

Paragon Group of Companies



The issuer will enter into hedging arrangements with Royal Bank of Scotland as swap counterparty to hedge the initial loans acquired on the closing date, which are fixed rate. These hedging arrangements will include one or more interest rate swaps or caps made available to the issuer by means of agreements entered into with the swap counterparty.

The transaction will provide that the issuer will be required to pay any swap breakage costs owed to the swap counterparty only as a result of its default at a level subordinated to payments to the class C notes in the priority of payments but will be allowed to retain the benefit of any swap breakage income in its favor.

Cash in the transaction account can be invested in pound sterling-denominated securities, bank accounts, or other obligations of or rights against entities whose long-term debt is rated 'AAA' or whose short-term debt is rated 'A-1' (in accordance with Standard & Poor's "Eligible Investment Criteria"). The cash reserve must be held with a bank with a rating of 'A-1+'.

A first loss fund in the amount of 4.3% of the initial face value of the notes will be available to meet certain items under the revenue priority of payments. This loss fund will reduce to 2.15% of the initial face value of the notes after the later of when the class A notes have been fully redeemed and after a minimum of five years after closing, subject to the asset test being satisfied.

Substitution and Further Advances

The criteria that must be met for substitution of further assets during the four-year substitution period include the following:

- The cash reserve account is fully funded;
- The loans are within the permitted levels, i.e., personal loans are not to exceed 30%, auto loans are not to exceed 30%, and secured loans are not to exceed 30%;
- A minimum weighted-average margin of 5% must be achieved on all substituted assets; and
- One payment has been received and the account is not delinquent.

Substitution will cease if the ratings on the notes would be adversely affected by continued substitution.

Stamp Duty Reserve

A reserve will be established for all the Scottish personal loans, retail loans, and auto loans in the securitized pool purchased by the issuer on closing until adjudication from the stamp office that no duty is payable.

The Paragon VAT Group

The issuer is a member of the Paragon VAT Group (consisting of Paragon Finance and certain of its related companies). At present, Paragon Finance as a representative member of the Paragon VAT Group is the entity primarily responsible for the VAT affairs of the Paragon VAT Group. For such period as the issuer is a member of the Paragon VAT Group, however, it will be under current VAT legislation, jointly and severally liable with the other members of the Paragon VAT Group for any amount of VAT due from the Paragon VAT Group to H.M. Customs & Excise.

Paragon Finance has established a VAT fund held in an account at National Westminster Bank to be used to pay amounts owing to H.M. Customs & Excise if the company primarily responsible fails to pay the relevant amount. Morgan Guaranty Trust Co. of New York is the trustee of the fund, which amounts to approximately £120,000. The issuer is one of the beneficiaries of the trust over the VAT account; such trust being constituted by a declaration of trust dated March 19, 1993, as subsequently amended and restated.

Note Terms and Conditions

Interest

Interest will be payable on the notes quarterly in arrears. The class A, B, and C notes pay interest based on three-month LIBOR plus a margin per year up to and including the interest period ending in June 2007 and thereafter at a higher margin.

Interest on the class B and class C notes can be deferred if there are insufficient funds to pay such interest. The cash flow runs have modeled deferral of interest on the class C notes rated ‘BBB’. Standard & Poor’s cash flow stresses do not permit interest deferral on notes rated ‘A-’ and above. Interest deferral is documented for the class B notes but the cash flow stresses pass with no deferral.

Mandatory Redemption

The A notes will be redeemed in preference to the B and C notes up to and including the later of the interest payment date in June 2006 and the first interest payment date on which the ratio of the aggregate principal amounts outstanding of the class B and C notes to the aggregate principal amounts outstanding of the notes equals or exceeds 2.25 times (x) original levels. On any interest payment date thereafter if the performing assets balance test ratio is less than 1:1, all available redemption funds will be applied in mandatory redemption of the notes so as to maintain the ratio of the B and C notes to all the notes. Once the class A notes have been redeemed in full, the class B and then finally the class C notes will be redeemed sequentially.

Optional Redemption

All of the classes of notes will be subject to redemption, at the option of the issuer, at the principal amount outstanding plus any accrued interest should withholding tax be implemented.

The issuer is also entitled to redeem the class A notes on or after the interest payment date in June 2004 or if the balance of the notes falls below £[50.2] million.

Final Redemption

To the extent not otherwise redeemed, the notes of each class will be redeemed at their principal amount outstanding on the interest payment date falling in June 2021 for the class A notes, June 2032 for the class B notes, and June 2048 for the class C notes.

Collateral Details

This is a mixed-asset portfolio that will comprise:

- Unsecured personal loans originated by Colonial Finance and Paragon Personal Finance;
- Unsecured retail credit loans originated by Colonial Finance and Paragon Personal Finance;
- Loans to individuals in the U.K. secured by second or subsequent ranking charges over residential property in England, Wales, and Scotland originated by Paragon Personal Finance; and
- Motor vehicle hire purchase agreements, motor vehicle conditional sale agreements, motor vehicle contract purchase agreements, and motor vehicle leasing agreements originated by Paragon Car Finance. There are a number of loans with residual value risk, but these loans are limited to a maximum value of £500,000.

Portfolio Loans—Breakdown by Product Type

Table 1 shows the breakdown by product type of the portfolio loans.

Table 1

Portfolio Loans—Breakdown by Product Type

Product Type	Provisional pool (£)	Percentage breakdown
Colonial personal loans	95,456,766	44.8
Colonial retail loans	56,928,075	26.7
Paragon retail loans	6,927,479	3.3
Paragon personal loans	6,418,538	3.0
Secured loans	21,246,779	10.0
Auto loans	26,062,507	12.2
Total	213,040,144	100.0

There will be about £59 million of pre-funding at closing. After closing, the products in the pool will be subject to pool constraints, which will control the substitution of new assets into the pool.

Portfolio Loans—Substitution Limits

Table 2 shows the breakdown by product type and the substitution limits to be applied in the revolving period.

Table 2

Portfolio Loans— Substitution Limits

Product Type	Provisional pool (%)	Substitution limits (%)
Personal loans	47.8	30
Retail loans	30.0	100
Secured loans	10.0	30

Auto loans	12.2	30
Total	100.0	—

Consumer Credit Act ('CCA')

As The Paragon Group did not originate the Colonial loans, they are unable to give a full representation and warranty for the personal and retail loans acquired from Colonial in relation to the CCA. A buy-back by The Paragon Group will be in place for these assets in relation to the CCA issues subject to a minimum of £1 million and a maximum of £20 million. Owing to this and the legal review highlighting a couple of issues with regard to CCA compliance and potentially unenforceability, an amount has been sized in the credit numbers to cover potential challenges on these CCA issues by customers.

Standard & Poor's Stress Test

Standard & Poor's analysis includes a conservative assessment of the credit risk inherent in the transaction. The credit enhancement levels have been sized after analyzing the effect that severe stress scenarios would have on the collateral.

In determining the credit quality of a mortgage pool, an estimate must be made of a worst case of potential losses that could occur because of foreclosures. This estimate of potential losses is the amount of loss protection required.

In determining the credit assumptions for the unsecured personal and retail loans, analysis was undertaken to predict the level of losses expected as the default data provided did not extend to the maturity of these products. These predicted levels of losses were used as the base assumptions in the cash flow model.

A feature of this portfolio is the multiple asset types of secured loans, auto loans, and unsecured loans. The cash flows were run to simulate the performance of this portfolio within the transaction's documented structure under certain stressful scenarios. In addition, the issuer will make use of the hedging agreements to prevent interest rate mismatches.

Surveillance Details

Continual surveillance will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral will be analyzed, supporting ratings will be monitored, and regular contact will be made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.