STANDARD & POOR'S STRUCTURED FINANCE

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ABS Multiple Class Presale

Paragon Personal and Auto Finance (No. 2) PLC

£244.7 million floating-rate notes

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This presale report is based on information as of Nov. 1, 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.

Profile

Expected closing date: Dec. 4, 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.

Arranger: JP Morgan.

Sellers: Universal Credit Ltd., Paragon Personal Finance Ltd., Paragon Car Finance Ltd., and Paragon Finance PLC.

Trustee: Citicorp Trustee Co. Ltd.

Hedging counterparty: Morgan Guaranty Trust Co. of New York, New York.

Transaction account provider: National Westminster Bank PLC.

Collection account providers: Lloyds TSB Bank PLC, National Westminster Bank PLC, Girobank PLC, Barclays Bank PLC, and HSBC Bank PLC.

Administrator: Paragon Finance PLC.

Supporting ratings: Morgan Guaranty Trust Co. of New York, New York. (AA/Stable/A-1+) and National Westminster Bank PLC (AA-/Stable/A-1+).

Preliminary ratings as of Nov. 1, 2001

Class	Preliminary rating*	Preliminary amount (Mil. £)	Recommended credit support (%)
A	AAA	146.9	52
B	A	70.9	23
C	BBB	26.9	12

**The rating of each class of securities is preliminary and subject to change at any time. The rating addresses timely payment of interest and principal with the proviso that interest can be deferred on the class 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. 2) 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 (29% of the notes issued), the subordinate class C notes (11% of the notes issued), the first loss fund (2.9% of the notes issued), overcollateralization (9.1% 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 a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview.

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Strengths, Concerns, and Mitigating Factors

Strengths

The strengths of the transaction observed in the rating analysis are:

- A cash reserve funded to 2.9% at closing;
- Overcollateralization of 9.1% of the notes issued; and
- The levels of excess spread in the transaction.

Concerns
Concerns identified with respect to the transaction are:

- Mixed and diverse collateral and the concentrations of these asset types;
- A substitution period, enabling further assets to be added to the pool;
- The higher-than-average default levels of the unsecured personal loans in the pool;
- Consumer Credit Act (CCA) issues on the personal loans purchased from Universal Credit Ltd.;
- The inclusion of auto loans with 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 following factors mitigate these concerns:

- Standard & Poor's cash flow stresses were adapted to take into account the different asset types.
- Portfolio concentration limits were incorporated to manage the breakdown of the portfolio through the substitution period.
- Tight substitution parameters are in place, including delinquency, concentration, and an interest due versus interest received tests.
- A legal analysis has been done and the amount of overcollateralization necessary to cover the CCA issues has been sized. This amount has been sized separately from the credit enhancement in the deal to cover defaults, etc.
- There is a limit of £3 million on the amount of auto loans in the pool with residual value risk.
- Deferral of interest has been incorporated in the cash flow model.
- Pro-rata amortization of the subordinated notes and amortization of the cash reserve complies with Standard & Poor's criteria.

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Main Transaction Parties

Paragon Personal and Auto Finance (No. 2) 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 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.

Morgan Guaranty Trust Co. of New York, NY (Swap Counterparty)
Morgan Guaranty Trust Co. of New York, New York will act as the swap counterparty in this transaction. The swap agreements will contain the Standard & Poor's swap replacement downgrade language.

Paragon Finance PLC (Administrator)
As administrator, Paragon Finance PLC 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.

Universal Credit Ltd., Paragon Personal Finance Ltd., Paragon Car Finance Ltd., and Paragon Finance PLC (Sellers)
Standard & Poor's has conducted a review of the origination, underwriting, and valuation processes of Paragon Finance as originator/servicer of the loans. A review of Universal Credit Ltd. was not conducted as Paragon purchased these loans from Universal.

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

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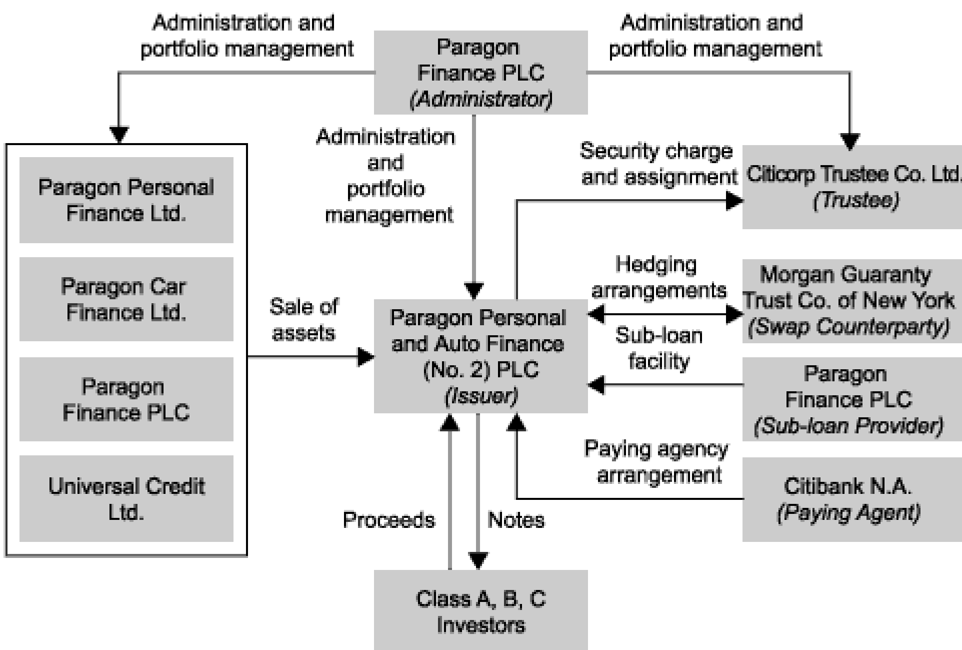
Transaction Structure
On the closing date, the issuer will use the proceeds from the issuance of the notes together with drawings on the subordinated loan to acquire the loans from the sellers. For the first four years of the transaction the issuer may purchase further loans subject to certain criteria.

The structure of the transaction is shown in the following chart.

Paragon Personal and Auto Finance (No. 2) PLC Structure



The issuer will enter into hedging arrangements with Morgan Guaranty Trust Co. of New York, New York as swap counterparty to hedge the initial fixed-rate loans acquired on the closing date. These hedging arrangements will include one or more interest rate swaps, and one or more interest rate caps will be made available to the issuer by means of agreements entered into with the swap counterparty.

The transaction documentation will provide that the issuer will only be required to pay any swap breakage costs owed to the swap counterparty if the swap counterparty is the defaulting party, at a level subordinated to payments to the class C notes in the priority of payments. The issuer will be allowed to retain the benefit of any swap breakage income in its favor.

Cash in the transaction account can be invested in British 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 at least 'A-1+'.

A first-loss fund in the amount of £7,125,000, which is 2.9% 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 £3,562,500, which is 1.45% of the initial face value of the notes when the class A notes have been fully redeemed and after a minimum of five years of amortization of the notes, subject to certain performance tests.

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, that is, personal loans do not exceed 15% of the pool, auto loans do no exceed 30%, and secured loans do not exceed 30%.

- A minimum margin of 5% must be maintained on the secured loans and the retail loans, 6% on the auto loans, and 7% on the personal loans.
- The transaction is within the delinquency triggers.
- One payment has been received and the account is no more than one month overdue.
- Substitution will cease if the ratings of the notes would be adversely affected by continued substitution.

Stamp Duty Reserve
No stamp duty reserve is required.

The Paragon VAT Group
The issuer is a member of the Paragon VAT Group (consisting of Paragon Finance PLC and certain of its related companies). At present, Paragon Finance as 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 PLC 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 currently amounts to approximately £120,000. The issuer is one of the beneficiaries of the trust over the VAT account. The trust was constituted by a declaration of trust dated March 19, 1993, as subsequently amended and restated.

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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 January 2008, 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
While the amortization conditions are met, the class B and class C notes will be redeemed pro rata in accordance with the amortization conditions.

If the amortization conditions are not met then all available redemption funds will be applied in mandatory redemption of the class A 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.

The amortization conditions are outlined in detail in the offering circular. These conditions are based on the ratio of the B and C notes to all of the notes.

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 notes on or after the interest payment date in January 2005 or if the principal outstanding balance falls below a specified amount to be determined.

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 January 2022 for the class A notes, January 2033 for the class B notes, and January 2049 for the class C notes.

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Collateral Details
This is a mixed-asset portfolio that will comprise:

- Unsecured personal loans originated by Universal Credit and Paragon Personal Finance;
- Unsecured retail credit loans originated by 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;
- 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. These loans are limited to a maximum value of £3 million.

Portfolio Loans-Breakdown by Product Type
Table 1 shows the breakdown by product type of the provisional pool (as of Aug. 31, 2001).

Table 1

Portfolio Loans-Breakdown by Product Type*

Product type	Balance of accounts in arrears 12 months or less (£)	Balance of accounts more than 12 months in arrears (£)	Total balance (£)	Percentage breakdown of performing balance (%)
Universal personal loans	48,344,691	152,044,515	200,389,206	14.18
Paragon retail loans	17,194,222	0	17,194,222	5.04
Paragon personal loans	190,851,529	24,466,452	215,317,981	55.96
Secured loans	30,775,944	0	30,775,944	9.02
Auto loans	53,857,789	604,442	54,462,231	15.80
Total	341,024,175	177,115,409	518,139,584	100.00

**Provisional as of Aug. 31, 2001.*

It is expected that there will be pre-funding at closing (not exceeding 3% of the notes issued). 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 Asset Breakdown-Substitution Limits
Table 2 shows the breakdown of the provisional pool and the expected pool at closing by product type and the substitution limits to be applied in the revolving period.

Table 2			
Portfolio Loans-Substitution Limits			
Product Type	Provisional as of Aug. 30, 2001 (%)	Expected at closing (%)	Substitution limits (%)
Personal loans	70.1	81.2	15
Retail loans	5.0	1.9	No limit
Secured loans	9.0	1.9	30
Auto loans	15.8	15.0	30

The personal loans currently make up 70% of the performing pool but further personal loans can only be added if the percentage falls below 15%. This will mean that initial substitutions will be made up of retail loans, secured loans, and auto loans. Various breakdowns of the portfolio have been modeled in the cash flows runs.

Consumer Credit Act (CCA)
Paragon is unable to give a full representation and warranty for the personal loans acquired from Universal Credit in relation to the CCA due to the fact that the company did not originate these loans. There is a full buy-back provision of these loans provided by Paragon that gives benefit to the transaction while Paragon is solvent. However, no benefit has been given to this in Standard & Poor's analysis of the transaction. Due to this and the legal review highlighting a couple of issues with respect to CCA compliance and potential unenforceability, an amount has been sized in the overcollateralization to cover potential challenges on these CCA issues by customers.

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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 impact 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.

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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.

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