STRUCTURED FINANCE

Publication Date: April 27, 2005

ABS Presale Report

Paragon Personal and Auto Finance (No. 3) PLC

£450 Million (Equivalent) Asset-Backed Floating-Rate Notes

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This presale report is based on information as of April 27, 2005. The credit 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 credit ratings that differ from the preliminary credit ratings. For further ratings information, call one of the following Standard & Poor's numbers: London Client Support Desk (44) 20-7176-7400; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5916; or Moscow (7) 095-783-4017. Members of the media may also contact the European Press Office via e-mail on: media_europe@standardandpoors.com. Investors are invited to call the SF Investor Hotline on (44) 20-7176-3223.

Class	Prelim. rating*	Prelim. amount (Mil. £ equivalent)**	Available credit support (%)	Interest	Legal final maturity
A	AAA	324.0	37	TBD	April 2036
B	AA	40.5	28	TBD	April 2036
C	A	40.5	19	TBD	April 2036
D	BBB	45.0	9	TBD	April 2036

**The rating on each class of securities is preliminary as of April 27, 2005 and subject to change at any time. Final credit 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. Standard & Poor's ratings address timely interest and ultimate principal.*
***All classes of notes issued in this transaction will be offered in both British pounds sterling and euros.*
TBD—To be determined.

Transaction Profile	
Originators	Paragon Personal Finance Ltd., Colonial Finance (UK) Ltd., Universal Credit Ltd., and Paragon Car Finance Ltd.
Sellers	Paragon Personal Finance Ltd. and Paragon Car Finance Ltd.
Arranger	Barclays Capital
Administrator	Paragon Finance PLC
Substitute administrator	GHL Mortgage Services Ltd.
Trustee	Citicorp Trustee Co. Ltd.
Subordinated loan provider	Paragon Loan Finance (No.1) PLC
Interest swap counterparty	HSBC Bank PLC
Currency swap provider	HSBC Bank PLC
Transaction account provider	National Westminster Bank PLC
Collection account providers	National Westminster Bank PLC, Lloyds TSB PLC, and Girobank PLC

Supporting Ratings	
Institution/role	Ratings
National Westminster Bank PLC as transaction account provider	AA/Stable/A-1+
HSBC Bank PLC as currency swap provider and interest swap counterparty	AA-/Stable/A-1+

Transaction Key Features	
Expected closing date	May 2005
Collateral	A pool of second-ranking mortgages secured over properties located in England, Scotland, Wales, and Northern Ireland; a pool of autoloans; unsecured personal loans; and unsecured retail credit loans.
Principal outstanding (Mil. £)	430
Country of origination	U.K.
Cash reserve (%)	9
Substitution period (years)	4

Transaction Summary

Preliminary credit ratings have been assigned to the £450 million (equivalent) asset-backed floating-rate notes to be issued by Paragon Personal and Auto Finance (No. 3) PLC.

The collateral is a mixed-asset portfolio that will comprise: second-ranking mortgage loans originated by Paragon Personal Finance Ltd.; auto loans originated by Paragon Car Finance Ltd.; unsecured personal loans originated by Paragon Personal Finance, Universal Credit Ltd., and Colonial Finance (UK) Ltd.; and unsecured retail credit loans originated by Paragon Personal Finance and Colonial Finance (UK).

On the closing date, the issuer will use the proceeds from the issuance of the notes to acquire the loans from the sellers.

Strengths, Concerns, And Mitigating Factors

Strengths
• The cash reserve will be funded to 9% at closing. • There is a high level of excess spread. • Strong protection for the noteholders is provided by subordinated classes, the cash reserve fund, and excess spread to cover credit losses and income shortfalls.

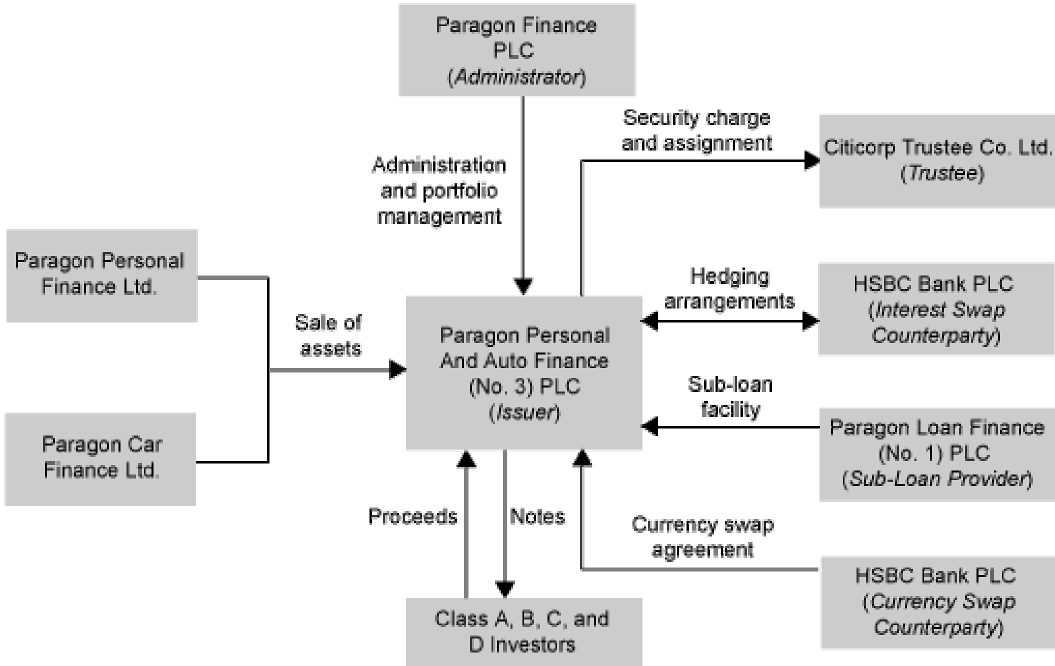
Concerns
• A substitution period of four years enables further assets to be added to the pool. • The unsecured personal loans in the pool have higher-than-average default levels. • There are potential Consumer Credit Act (CCA) issues on the unsecured loans purchased from Universal Credit Ltd. and Colonial Finance (UK). • The subordinated notes will be amortized pro rata.

Mitigating factors
• Standard & Poor's cash flow stresses were adapted to account for the different asset types. • Portfolio concentration limits were incorporated to manage the composition of the portfolio through the substitution period. • Tight substitution parameters are in place, including delinquency limits, concentration limits, and an "interest due versus interest received" test. • A legal analysis has been done and the amount necessary to cover the CCA issues has been sized. This amount has been sized separately from the credit enhancement in the transaction to cover defaults. • Pro-rata amortization of the subordinated notes complies with Standard & Poor's criteria and includes strict subordination and collateral performance requirements.

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). For the first four years of the transaction, up to April 2009, the issuer may purchase further loans subject to certain criteria.

Paragon Personal And Auto Finance (No. 3) PLC Structure



Paragon Personal and Auto Finance (No. 3) is a public company incorporated under English law and is a wholly owned subsidiary of The Paragon Group of Companies PLC. It complies with SPE criteria and has one independent director on its board.

Citicorp Trustee Co. Ltd. will act as the trustee in this transaction. It supervises the administration of the issuer under the transaction terms, and generally represents and protects the noteholders' interests. Only the trustee will be able to enforce the security under the terms and conditions of the notes.

Collateral Description

This is a mixed-asset portfolio that will comprise:

- Loans to individuals in the U.K. secured by second- or subsequent-ranking charges over residential property in England, Wales, Scotland, and Northern Ireland originated by Paragon Personal Finance;
- Motor vehicle hire-purchase agreements, motor vehicle conditional-sale agreements, and motor vehicle contract-purchase agreements, originated by Paragon Car Finance;
- Unsecured personal loans originated by Paragon Personal Finance, Universal Credit, and Colonial Finance (UK); and
- Unsecured retail credit loans originated by Paragon Personal Finance and Colonial Finance (UK).

Standard & Poor's reviewed the origination, underwriting, and valuation processes of Paragon Personal Finance and Paragon Car Finance as originators of the loans. Universal Credit and Colonial Finance (UK) were not reviewed, as Paragon Personal Finance purchased the loans from these companies.

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.

A review of the collection and default management procedures of Paragon Finance was carried out. This 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.

Portfolio loans—breakdown by product type

Table 1 shows the breakdown by product type of the provisional pool (as of March 31, 2005).

Table 1: Portfolio Loans—Breakdown By Product Type*

Product type	Total balance (£)	Balance breakdown (%)
Secured loans	209,804,917	48.8
Auto loans	128,823,095	30.0
Paragon personal loans	69,520,565	16.2
Paragon retail loans	21,490,125	5.0
Total	429,638,703	100.0

**Provisional as of March 31, 2005.*

Portfolio asset breakdown—substitution limits

Table 2 shows the substitution limits to be applied in the revolving period.

Table 2: Portfolio Loans—Substitution Limits

Product type	Substitution limits (%)
Secured loans	80
Personal loans	15
Personal and retail loans combined	25
Personal, retail, and auto loans combined	60

Personal loans comprise 16.2% of the provisional pool. Further purchases of personal loans are not expected after closing. Substitutions are therefore expected to be made up of retail loans, secured loans, and auto loans. Various breakdowns of the portfolio have been modeled in the cash flows runs.

Credit Structure

Transaction account and cash collection arrangements

National Westminster Bank PLC (AA/Stable/A-1+) 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, or directly into the transaction account. The money credited to the collection accounts will be swept into the transaction account on a daily basis.

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 at least 'A-1' (in accordance with Standard & Poor's eligible investment criteria). The cash reserve (first-loss fund) must be held with a bank with a rating of at least 'A-1+'.

First-loss fund

A first-loss fund in the amount of £40.5 million, which is 9% of the initial face value of the notes, will be available to meet all interest and principal shortfalls on the notes under the priority of payments. The first-loss fund is not allowed to amortize unless certain conditions are met.

Interest swap agreement

The issuer will enter into an interest rate swap with HSBC Bank PLC (AA-/Stable/A-1+). The swap hedges the interest rate exposure arising from the fixed-rate loans in the pool. The issuer will pay the interest rate swap counterparty a weighted-average rate on all performing fixed-rate assets. In return, the interest rate swap counterparty will pay the issuer three-month LIBOR plus a margin of at least 4.5% per annum.

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 must be fully funded.
- The loans must be within the permitted levels, i.e., personal loans cannot exceed 15% of the pool; personal loans and retail loans combined cannot exceed 25% of the pool; and personal, retail and auto loans combined cannot exceed 60% of the pool. There is a 80% cap with regard to further secured loans, and to include these loans, Standard & Poor's WAFF and WALS tests have to be met.
- A minimum margin of 4.0% must be maintained on the secured loans.
- The transaction must be within the delinquency triggers.
- One payment must have been received on the loans within 60 days of origination and the account must be no more than one month in arrears.

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

Consumer Credit Act

The legal review highlighted a couple of issues with respect to CCA compliance and potential unenforceability for the unsecured loans acquired from Universal Credit and Colonial Finance (UK), and an amount has been sized to cover potential challenges on these CCA issues by customers.

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 representative member of the Paragon VAT Group, is the entity primarily responsible for the VAT affairs of the Paragon VAT Group. While 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 pay amounts owing to H.M. Customs & Excise if the company primarily responsible fails to pay the relevant amount. Citicorp Trustee Co. Ltd. is the trustee of the fund, which currently amounts to approximately £186,000**.** 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.

Note Terms And Conditions

Interest

Interest will be payable on the notes quarterly in arrears. The class A, B, C, and D notes pay interest based on three-month LIBOR or three-month EURIBOR plus a class-specific margin per year up to and including the interest period ending in April 2010, and thereafter at a higher margin.

Mandatory redemption

While the pro rata amortization conditions are met, the class B, C, and D 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, C, and D 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 class B, C, and D notes to all of the notes.

Optional redemption

All 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 April 2009 or if the principal outstanding balance falls below 20% of the initial balance at closing.

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 April 2036.

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.

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.

Criteria Referenced

- "*European Legal Criteria for Structured Finance Transactions*" (published March 23, 2005).
- "*Auto Loan Criteria*" (published in 1999).
- "*European Consumer Finance Criteria*" (published in March 2000).

Related Articles

- "*2005 Outlook: European Securitization Shows its Adaptability*" (published Jan. 17, 2005).

All criteria and related articles are available on RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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