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Analysis

New Issue: Paragon Auto and Secured Finance (No. 1) PLC

Analyst: Brian Kane, London (44) 20-7826-3530; Chris Such, London (44) 20-7826-3529

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New Ratings

£26.33 million floating rate notes

Class B	A
Class C	BBB
EUR285 million floating rate notes	AAA

Closing date: Nov. 23, 2000

Transaction Summary

Collateral: Auto loans and a pool of second-ranking mortgages secured over properties located in England, Scotland, and Wales.

Underwriter: Société Générale.

Seller of portfolio loans: Paragon Personal Finance Ltd.

Seller of portfolio car finance contracts: Paragon Car Finance Ltd.

Administrator: Paragon Finance PLC.

Trustee: Citicorp Trustee Co. Ltd.

Hedging counterparty: Société Générale.

Transaction account provider: National Westminster Bank PLC.

Supporting ratings: Société Générale (AA-/Stable/A-1+) and National Westminster Bank PLC (AA-/Stable/A-1+).

Rationale

The ratings assigned to the class A, B, and C notes issued by Paragon Auto and Secured 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 (8.5% of the notes issued), the subordinate class C notes (5.0% of the notes issued), the first loss fund (3.0% of the notes issued), a spread trap building up overcollateralization (1.5% 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, spread trap, and excess spread to cover credit losses and income shortfalls; and
- Strong protection for class C noteholders provided by the first loss fund, spread trap, and excess spread to cover credit losses and income shortfalls.

Strengths, Concerns, and Mitigating Factors

Strengths

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

- A cash reserve funded to 3% at closing;
- A spread requirement that will trap 1.5% of excess spread and is to be used to purchase further assets;
- 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 two asset types; and
- The ability to substitute loans.

Mitigating Factors

The concerns highlighted were mitigated by the following factors:

- Standard & Poor's cash flow stresses were adapted to take account of the two different asset types; and
- The tight substitution parameters in place.

Main Transaction Parties

Paragon Auto and Secured 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 is able to enforce the security under the terms and conditions of the notes and it always has to act in the best interests of the noteholders.

Société Générale (Swap Counterparty and Deposit Account Provider)

Société Générale acts as the swap counterparty in this transaction. The various swap agreements contain the appropriate Standard & Poor's swap replacement downgrade language.

Paragon Finance PLC (Administrator)

As administrator, Paragon Finance is responsible for the day-to-day administration and ongoing servicing of the underlying portfolio of mortgages.

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 secured and auto loans.

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 both Paragon Personal Finance Ltd. as originator/seller of the secured loans and Paragon Car Finance Ltd. as originator/seller of the auto loans.

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.

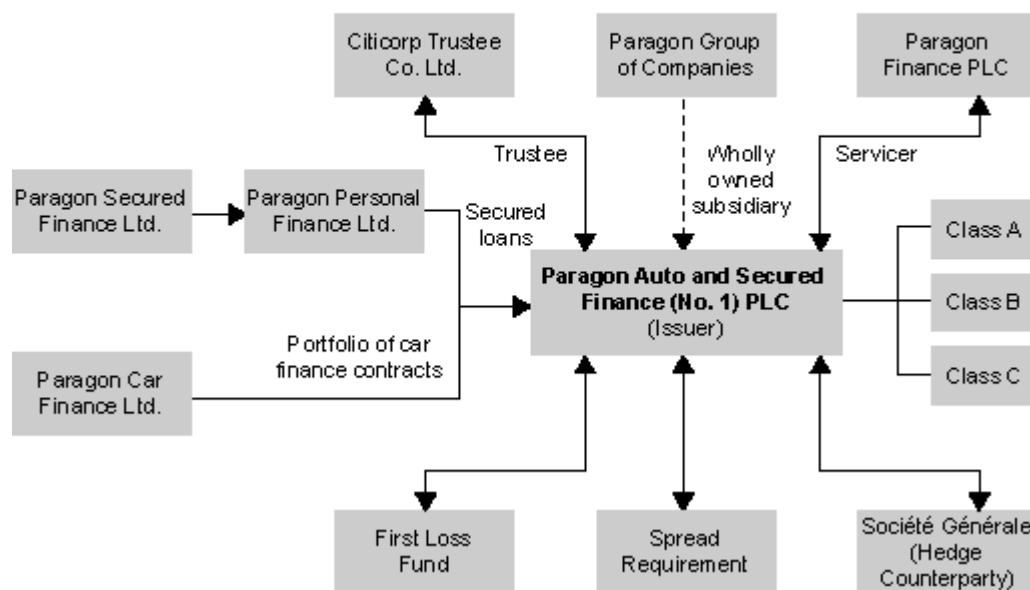
National Westminster Bank PLC (Transaction Account Provider)

National Westminster Bank has provided the transaction account for this transaction. Borrowers make payments to collection accounts provided by National Westminster Bank. The money credited to the collection accounts are swept to the transaction account on a daily basis.

Transaction Structure

On the closing date, the issuer used the proceeds from the issuance of the notes to acquire the secured loans from Paragon Personal Finance and the auto loans from Paragon Car Finance (see chart below). For the first four years of the transaction the issuer may purchase further loans from Paragon Personal Finance and Paragon Car Finance subject to certain criteria (see below).

Paragon Auto and Secured Finance (No. 1) PLC Structure



The issuer entered into hedging arrangements with Société Générale as swap counterparty to hedge the initial portfolio loans, which are fixed rate, and all

portfolio car finance contracts that were acquired on the closing date. These hedging arrangements include one or more interest rate swaps and interest rate caps and/or floors, which were made available to the issuer by means of one or more cap or floor agreements entered into with the swap counterparty, or may comprise other interest rate hedging arrangements entered into with the rate swap provider.

The issuer also entered into hedging arrangements to hedge the currency and interest rate exposure arising from the subscription amounts for the class A notes being paid by investors in euros, but the consideration for the purchase by the issuer of portfolio assets is in British pound sterling, and further, that payments from borrowers in relation to the portfolio assets are in pound sterling, but the payment obligations of the issuer in relation to interest and principal on the class A notes are denominated in euros and, in the case of interest, calculated by reference to EURIBOR.

The issuer also entered into a deposit account agreement with Société Générale. Under this agreement, Société Générale agreed to accept deposits from the issuer on each interest payment date up to the interest payment date falling in November 2004.

The transaction provides that the issuer is required to pay any swap breakage costs owed to the swap counterparty only at a level subordinated to payments of class C payments in the priority of payments but is 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 3% of the initial face value of the notes is available to meet certain items under the revenue priority of payments.

Substitution and Further Advances

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

- There is no unremedied loss present on the principal deficiency ledger;
- The cash reserve account is fully funded;
- Losses in the secured loan pool are less than 10%, or the amount of interest due to be generated by the pool divided by the actual amount of interest generated must be equal to or greater than 95% (or such other percentages as may be agreed with Standard & Poor's from time to time);
- Losses in the car loan pool are less than 4%, or the amount of interest that is due to be generated by the pool divided by the actual amount of interest generated must be equal to or greater than 96% (or such other percentages as may be agreed with Standard & Poor's from time to time);
- The ratio of car loans to secured loans must remain within the respective caps (car loans a maximum of 75% of outstanding balance and secured loans a maximum of 50% of outstanding balance);
- A minimum mortgage margin of 5% must be maintained for the entire portfolio of secured loans; and
- A minimum margin over the swap rate of 5% must be achieved for any

pool of substituted car loans.

Substitution ceases if the ratings of the notes would be adversely affected by continued substitution.

Stamp Duty Reserve

A reserve has been established for all the Scottish auto loans in the securitized pool 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 PLC and certain of its related companies). At the time of closing, 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 is 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 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; such trust being constituted by a declaration of trust dated March 19, 1993, as subsequently amended and restated.

Note Terms and Conditions

Interest

Interest is payable on the notes quarterly in arrears. The class A notes pay interest of three-month EURIBOR plus a margin of 0.34% per year up to and including the interest period ending in November 2006 and thereafter plus 0.68% per year. The class B notes pay interest of three-month LIBOR plus a margin of 0.80% per year up to and including the interest period ending in November 2006 and thereafter plus 1.60% per year. The class C notes pay interest of three-month LIBOR plus a margin of 1.8% per year up to and including the interest period ending in November 2006 and thereafter plus 3.60% per year.

Mandatory Redemption

The notes are to be redeemed at their principal amount outstanding when the ratio of class B and C notes to all the notes is 2.25 times (x) the level at closing. There is also mandatory redemption should certain portfolio triggers be breached.

Optional Redemption

All of the classes of notes are 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 November 2004 or if the balance falls below £39 million.

Final Redemption

To the extent not otherwise redeemed, the notes of each class are to

redeemed at their principal amount outstanding on the interest payment date falling in November 2031.

Collateral Details

This is a mixed-asset portfolio that comprises (figures from the provisional pool):

- Loans to individuals in the U.K. secured by second- or subsequent-ranking charges over residential property in England, Wales, and Scotland (46.8% of the portfolio); and
- Motor vehicle hire purchase agreements and motor vehicle conditional sale agreements (53.2% of the portfolio).

Portfolio Loans—Key Features

Table 1 shows the key features of the portfolio loans.

Outstanding balance of portfolio loans (£)	71,262,182
Weighted average loan to value (LTV) (%)	84.51
Weighted average LTV of prior liens (%)	63.46
Average current balance outstanding (£)	11,527.37
Weighted average seasoning (months)	5.92
Weighted average annual yield (%)	12.52
Weighted average remaining term (years)	9.926

Further characteristics of the loans are:

- They are all fully amortizing;
- The balances range from about £264 to £64,373;
- The loan yields range from 9.52% to 15.88%; and
- The largest concentration of loans by geographic area is in the south-east of England (including London) at 36.61%. There are no significant concentrations in other regions.

Portfolio Car Finance Contracts—Key Features

Table 2 shows the key features of the portfolio car finance contracts.

Outstanding balance of car loans (£)	81,104,877
Average current balance outstanding (£)	6,657.22
Weighted average seasoning (months)	4.66
Weighted average annual yield (%)	13.81
Weighted average remaining term (months)	48.30

Further characteristics of the contracts are:

- The loan balances range between approximately £213 and £60,115;
- The loan yields range from 7.29% to 31.59%;
- About 93.8% of the car loans emanate from motor vehicle hire

purchase agreements, which are fully amortizing, and 6.2% from motor vehicle conditional sale agreements, which are to make a balloon payment at the end of the loan.

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 were 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 needed.

A feature of the portfolio is the twin asset types of secured loans and auto loans and 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 makes use of the hedging agreements to prevent mismatches in interest rates, basis, and currency risk.

Surveillance Details

Continual surveillance is 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 are analyzed, supporting ratings are monitored, and regular contact is 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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