Finance for People (No. 4) PLC, Multi Class Mortgage-Backed FRNs

UK-MBS

CLOSING DATE:
September 30, 1998

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TRANSACTION IN BRIEF

	Class A1	Class A2	Class B
Rating:	**Aaa**	**Aaa**	**A2**
Amount:	£44.35m	£119m	£17.65m
Coupon:	Libor + 12 bp	Libor + 25bp	Libor + 65bp
Step Up Date:	Oct 2000	Oct 2004	Oct 2004
Step Up Margin:	Libor+ 25bp	Libor+ 50bp	Libor+ 130bp
Final Maturity:	Oct 2037	Oct 2037	Oct 2037
Interest Payment Dates:	January, April, July and October (last business day)		

Issuer:	Finance for People (No.4) PLC
Originator:	Paragon Mortgages Limited
Servicer:	Paragon Finance PLC
Servicer of Last Resort:	Barclays Bank PLC (**Aa2**)
Trustee:	Citicorp Trustee Company Limited
Lead Manager:	ING Barings
Asset Characteristics:	First residential mortgages in England, Wales and Scotland

Summary of Provisional Pool (31 August 1998)

Count:	3,391 Residential Loans	
Principal Amount:	£162,857,539.64	
LTV:	Avg: 68.64 %	Max: 100 + (0.03%)
Loan Size:	Avg: £48,026	Max: £250,000 + (2.2%)
Performance:	Current (inc <=1 month arrears) 99.17%	
Arrears:	1-3 months 0.69%, 3-6 months 0.12%, 6-12 months 0.03%	
Loan Usage:	Purchase 59%, Remortgage 41%	
Interest Rate:	Administered Variable Rate 45%, Capped 5.7%, LIBOR linked 0.76%, Fixed Rate (that reverts to variable) 48.5%	
Concentration:	36.7% SE, 22.6% Ldn, 2.7% North, 10.2% SW, 3.1% E Anglia, 5.4% NW, 3.8% E Mid, 4.4% W Mid, 2.7% Wales, 7.4% Yorks, 1% Scot	
Seasoning:	1997 7.6%, 1998 92.4%	
Mortgage Indem. Ins.:	C.E. Heath (Lloyd's of London)	
Credit Support:	First Loss Fund 2% of the initial current balance of the mortgages, £17,650,000 Class B Notes and Spread	
Closing Date:	30 September 1998	

OPINION

Moody's has assigned long term credit ratings of **Aaa** to the Class A1 and A2 Notes and **A2** to the Class B Notes (together the "ratings").

The rating of the Class A Notes is based upon an analysis of the characteristics of the mortgage pool backing the Notes, the protection the Notes receive from credit enhancement against defaults and arrears in the mortgage pool, and the legal and structural integrity of the issue.

The ratings of the Class B Notes are based on the above factors, and on an assessment of the extent of their subordinate position within the structure.

The ratings of each of the Notes address the timely payment of interest, and ultimate payment of principal.

RATING SUMMARY

Structure

The issuer is a special purpose vehicle incorporated in England ultimately owned by The Paragon Group of Companies PLC and SPV Management (an independent provider of services to securitised transactions).

The assets backing the structure are first mortgages secured on residential properties in England, Wales or Scotland that have been sold by Paragon Mortgages Limited to the issuer via Paragon Finance PLC.

The Issuer funds the purchase price of the loans by issuing the Class A and Class B Notes (together the "Notes").

Start up expenses of the issuer are funded by Paragon Mortgages Limited (PML). These costs are repayable by the issuer though such payments are subordinated to payments of both interest and principal to the Class A and Class B noteholders. Paragon Finance PLC (PFPLC) has also advanced a separate Subordinated Loan to the issuer to fund a First Loss Fund equal to 2% of the initial current balance of the mortgages.

The First Loss Fund also acts as a source of liquidity for the structure and assists the payment of interest in the event that income from the mortgages is insufficient to pay Note interest and various costs. Proceeds from the sale of possessed properties are treated first as income and then principal and this also enhances liquidity. Finally replenishment of the First Loss Fund is senior to the reduction in the Principal Deficiency Ledger, until all Class A notes have been redeemed.

No purchases of new mortgages with redemption moneys is permitted, though the Issuer may, subject to various conditions, utilise principal receipts to make discretionary further advances on existing mortgages of up to £35,000,000.

Interest Rate Risk

The issuer receives either an administered or an externally set variable mortgage rate or a temporarily fixed rate on its mortgage assets while paying Libor plus a margin on the Notes.

The structure does not contain the Threshold Rate Mechanism found in some other mortgage securitisations, and thus there is a small risk that the interest rate charged on the mortgage portfolio may be less than that payable on the Notes, plus various expenses. However, the servicer is obliged to set a mortgage rate on the administered variable rate mortgages within the portfolio so as to charge an "Average Margin" on the whole pool of at least 160bp (200bp after Oct 2004) pa over 3 Month Libor.

A Shortfall Fund, may be established by the Servicer to enable it to set an Average Margin on the mortgage pool below the minimum level, to the extent that the fund is able to make good the difference.

The structure also benefits from interest rate swaps and caps provided by Morgan Guaranty Trust Company of New York (**Aa1**), in respect of the fixed and capped rate mortgages that represent 48.5% and 5.7% of the pool. The support that the swap provides to the transaction is reduced as the swap may require the SPV to pay certain break costs to the swap provider in the event that mortgages default or prepay. Moody's notes however that the fixed rate mortgage loans revert to a variable rate after a fixed initial period.

The Servicer may also agree to convert fixed rate into floating rate mortgages and vice versa, and may also alter the payment method between repayment and interest only. There is no requirement to hedge such further interest rate exposure, unless the then current rating of the Notes would be adversely affected.

RATING SUMMARY

Credit Enhancement

The first layer of protection is spread in the transaction, which is the difference between (1) the income received from the mortgages and other investments, and (2) the coupon on the Notes plus various ongoing costs. The value of this spread was assessed under a variety of adverse conditions which would minimise its effectiveness, including high prepayment speeds, and back-ended losses. Excess spread leaves the transaction to the extent that it is not required to meet ongoing or past losses.

The second layer of protection for investors in the rated Notes is the First Loss Fund, which is 2% of the initial balance of the initial mortgage pool. Excess spread is also used to replenish any drawings from the First Loss Fund in prior periods, throughout the life of the transaction.

The balance of the First Loss Fund may amortise in line with the mortgage collateral, subject to certain severe triggers, to the extent that the remaining balance of the First Loss Fund equals 5% of the principal balance of the outstanding mortgage pool.

The Class B Notes also provide protection for the Class A Notes.

On each payment date on the Notes, interest on the Class A Notes is paid in priority to payment of interest to the Class B Notes.

If outstanding principal losses and any interest arrears on the Notes (after the effect of spread) exceed the First Loss Fund plus the Class B Note balance, then the payment of Class B interest is subordinated to the rebuilding of the First Loss Fund and to the reduction of the principal deficiency ledger. Class B interest is therefore effectively subordinate to A Note interest and principal but not Class B principal.

No principal is paid to the Class B Noteholders until the Class B Notes represent approximately 19.5% of the total Class A and Class B Notes (ie double the initial ratio). Thereafter, and subject to certain triggers, prepayments are allocated so as to restore the 19.5% ratio. The Class B Notes are subject to a minimum balance of £2,000,000 while any Class A Notes remain outstanding.

Collateral

The Notes are backed by residential first mortgage loans on properties in England, Wales or Scotland. The mortgages were originated by PML. The deal represents a refinancing of newly originated business.

The pool credit quality was negatively affected by:

1. The proportion (approximately 74% of loans in the pool) of Buy-to-Let mortgages. Moody's believes that these products can be more volatile in adverse economic environments.
2. A degree of collateral concentration in the South East (36.7%) and in Greater London (22.6%).
3. The presence of non-commodity products within the portfolio. These include Fresh Start mortgages (7.5%) as well as Self Employed products (2.8%).
4. 54% of the loans have been made to self employed borrowers.

Moody's believes that these factors are principally addressed by the amount of credit enhancement present in the structure.

Most of the loans with a LTV in excess of 75% also have the benefit of Mortgage Indemnity policies provided by Lloyd's of London. A substantial element of this policy is re-insured on a cut through basis by highly rated entities.

Servicer

PFPLC is the servicer for the transaction. PFPLC currently employs approximately 420 staff in administering a mortgage portfolio of approximately £11bn for the Paragon Group and associated securitisation vehicles. Paragon also has entered the consumer loan business in 1997 and administers a £327m portfolio. Barclays Bank PLC (**Aa2**) is the servicer of last resort.

The Paragon Group of Companies PLC was previously known as National Homeloans Holdings PLC, Paragon Finance PLC was previously The National Homeloans Corporation plc, and Paragon Mortgages Limited was known as Homeloans Direct Limited.