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RMBS Presale Report

Homeloans (No. 4) PLC

£220 million mortgage-backed floating-rate notes

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This presale report is based on information as of May 1, 2002. 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) 20-7847-7400 for the final ratings when assigned.

Profile

Expected closing date: May 2002.

Collateral: A pool of first-ranking mortgage loans secured over freehold, leasehold, or feudal properties located in England, Scotland, and Wales.

Underwriter: Barclays Capital.

Seller: Homeloans (Jersey) Ltd.

Administrator and servicer: Paragon Finance PLC.

Substitute servicer: Global Home Loans Ltd.

Trustee: Citicorp Trustee Co. Ltd.

Swap counterparty: to be determined.

Transaction account bank: National Westminster Bank PLC.

Supporting ratings: National Westminster Bank PLC (AA-/Stable/A-1+) as transaction account bank and collection account bank.

Preliminary ratings as of May 1, 2002

Class	Preliminary rating*	Preliminary amount (Mil. £)	Recommended credit support (%)
A	AAA	198.0	11.9
B	A	16.5	4.4
C	BBB	5.5	1.9

*The rating on each class of securities is preliminary and subject to change at any time.

Rationale

The preliminary ratings assigned to the class A, B, and C mortgage-backed floating-rate notes to be issued by Homeloans (No.4) PLC reflect the transaction's sound credit and payment structure, the ability of the servicer, Paragon Finance PLC, to perform its role in this transaction, the sound legal structure of the transaction, and the cash flow mechanics of the transaction.

Further key considerations include:

- The strong protection for class A noteholders provided by a combination of the subordinate class B notes (7.5% of the notes issued) and class C notes (2.5%), the first-loss fund (1.9% of the notes issued), and excess spread to cover credit losses and income shortfalls;
- The strong protection for class B noteholders provided by a combination of the subordinate class C notes (2.5 % of the notes issued), the first-loss fund and excess spread to cover credit losses and income shortfalls; and
- The strong protection for class C noteholders provided by the first-loss fund , 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 resolution of all outstanding issues.

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Strengths, Concerns, and Mitigating Factors

Strengths

The following strengths of the transaction were observed in the rating analysis:

- Preclosing arrears will be at about £34.3 million as of the closing date. These amounts will not be paid for by the note issuance. The issuer will draw upon the subordinated loan provided by Paragon Finance. However, amounts received with respect to these arrears will be paid into the issuer account upon mortgage repayment or foreclosure and will be available to service all revenue items in the priority of payments.

- This is a very seasoned portfolio with a weighted-average seasoning of 12.65 years. Historical data suggests that mortgages are less likely to go into default if they have been outstanding for a number of years (assuming that the loans have not been in arrears). Standard & Poor's has therefore applied lower default assumptions for the current loans on the basis that they have no arrears experience.
- About 94.66% of the mortgages were originated by Paragon Finance PLC with no broker lending.
- The average size of the loans in the portfolio is low at (£38,439) considering that more than one-half of the mortgages relate to properties located in southeast England, including Greater London. The loans are therefore considered to have less inherent risk than larger loans, which have increased sensitivity to changes in the borrowers' financial circumstances.
- At the time of origination, none of the borrowers in respect of the mortgages had any material county court judgements.
- The weighted-average indexed loan-to-value (LTV) ratio in the pool is considerably low at about 50%, and has significantly reduced Standard & Poor's loss assumptions for the transaction.

Concerns and Mitigating Factors

An initial concern with respect to the transaction is the level of arrears in the closing pool, which amounts to £34.3 million. Standard & Poor's has addressed this concern by assuming higher foreclosures for mortgages in this transaction in line with the level of arrears. When sizing credit enhancement levels, the high foreclosure assumption was mitigated by the high recovery assumption due to the low weighted-average LTV that resulted from the revaluation analysis performed with respect to the seasoned loans.

Due to the high level of seasoning in the mortgage pool, Standard & Poor's has given 40% credit to the geographical housing price inflation movements for loans that were valued at least three years prior to the closing date.

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Related Parties

Homeloans (No. 4) PLC (Issuer)

The issuer is a public company incorporated under the laws of England in January 1999 and is a subsidiary of The Paragon Group of Companies PLC, the ordinary shares of which are listed on the London Stock Exchange.

The issuer is a special-purpose entity (SPE) established for the purpose of issuing the notes and purchasing the mortgages. The issuer fully meets Standard & Poor's SPE criteria for bankruptcy remoteness. The issuer has an independent director.

Paragon Finance PLC, Société Générale, and Certain Local U.K. Authorities (Originators)

Paragon Finance is a public company incorporated in England and is the originator of the majority of mortgages in the portfolio (94.66%). In addition, portfolios of mortgages originated by Société Générale (3.90%) and certain local U.K. authorities (1.44%), which were previously acquired by Paragon Finance, are included in the transaction.

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 noteholders. Only the trustee 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.

Interest Rate Swap Counterparty

There are currently no fixed or capped rate loans in the pool. If any arise through mortgage conversions, however, the issuer will enter into hedging arrangements to protect the issuer and noteholders from variations between the interest rate received on those fixed-rate mortgages and the interest rate due on the notes.

The issuer will be required to pay any swap breakage costs owed to the swap counterparty (unless the swap counterparty is in default) pari passu with the payment of the coupon on the class A notes in the cash flow waterfall. Note that the issuer may not convert a cumulative principal value greater than £2 million into a fixed-rate loan with a maximum fixed period of two years, unless it obtains rating agency consent.

Paragon Finance PLC (Subordinated Loan Provider, Shortfall Fund Provider, and Administrator)

Paragon Finance will provide a subordinated loan to the issuer, which will fund the first-loss fund--a cash reserve forming part of the credit enhancement for the notes. The subordinated loan will also be used to finance the purchase of preclosing accruals, thus enabling the issuer to achieve the ratings on the notes.

The subordinated loan may also be used, to the extent that funds are available, to fund mandatory further advances in the mortgage pool in instances where the issuer's principal funds are insufficient, to reduce the principal deficiency ledger to zero, and to replenish the first-loss fund to the amount required to allow the issuer to fund discretionary further advances.

As administrator, Paragon Finance will be 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 mortgages.

A review of Paragon Finance's origination, underwriting, and valuation processes and of its collection and default management procedures (as administrator) has been conducted. 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. Paragon Finance is considered 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, Collection Account Provider)

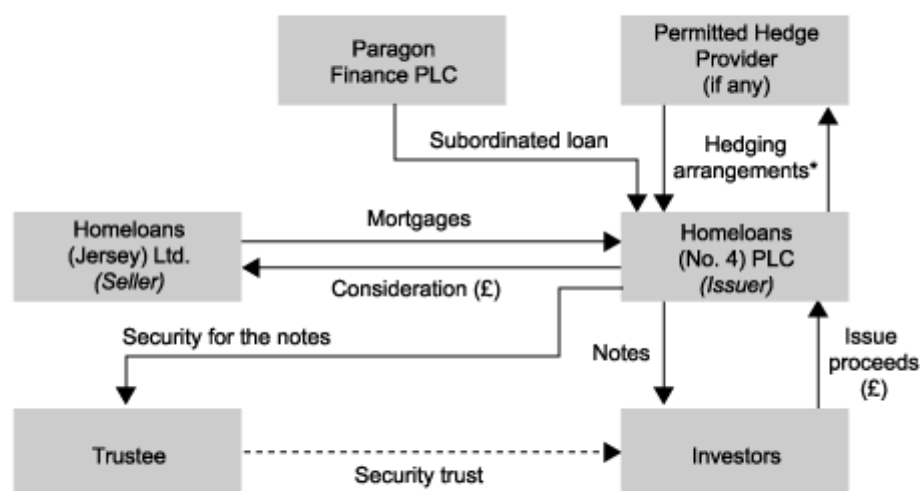
National Westminster Bank PLC (NatWest) will provide the transaction account. All payments from borrowers will be paid into a one of two collection accounts, which are also held with NatWest, and then transferred to the transaction account.

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Transaction Structure

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

Homeloans (No. 4) PLC Structure



**Arising upon the conversion of mortgages (if any).*

At closing, and in accordance with the terms of a mortgage sale agreement, the issuer will acquire from Homeloans (Jersey) Ltd. the beneficial interest in certain mortgages originated by Paragon Finance PLC, certain local U.K. authorities, and Société Générale. The mortgages will form part of the security for the notes (see "Security Package" below). The borrowers in respect of the mortgages are individuals.

Legal title to the non-Société Générale mortgages will remain vested with Paragon Finance while legal title to the Société Générale mortgages will remain vested with Paragon Mortgages Ltd. The issuer will have the right to obtain legal title to the mortgages in certain circumstances such as the insolvency of Paragon Mortgages or of Paragon Finance.

All classes of notes will be secured by all the mortgages in the pool and repayments to noteholders will be financed from the cash flow generated by the mortgages.

Security Package

Pursuant to the deed of charge to be entered into between the issuer and the trustee, the notes will be secured by a first fixed charge over the issuer's interest in the mortgages, the issuer's rights under various transaction documentation, and other security such as bank accounts (covered under a floating charge ranking behind preferred creditors) and any hedging agreements.

Conversion Mortgages

The administrator may (but is not obliged to) convert a borrower's mortgage into any other type of mortgage if certain conditions are met. These conditions include the following:

- The trustee has given no enforcement notice.
- Conversion will not affect the ratings on the notes.
- Conversion cannot extend the final maturity of the relevant mortgage beyond 2026.
- As of the closing date, Paragon Finance has not failed to repurchase a mortgage for breach of representations in respect of such mortgage.
- The issuer agrees to enter into a hedging arrangement (if required) to

ensure that conversion will not affect the ratings on the notes.

- The originators' lending criteria have been met.
- The mortgage being converted must be current (except in limited circumstances).

Mandatory and Discretionary Further Advances

If the issuer is unwilling or unable to make a discretionary further advance, Paragon Finance may decide to do so on the condition that such advance is secured by a second mortgage over the property in question.

The issuer may make discretionary further advances, subject to certain conditions, which include the following:

- The originators' lending guidelines must be satisfied.
- If applicable, the provisions of the Consumer Credit Act must be complied with.
- Discretionary further advances may not be made out of funds notified as being available for redemption of the notes between the principal determination date and the interest payment date.
- As a result of the discretionary further advance (and any mandatory further advance) the weighted-average LTV of the pool may not increase by more than 1% relative to the weighted-average LTV of the pool at closing.
- Principal available funds or drawn amounts under the subordinated loan must be sufficient to fund the discretionary further advances.
- As a result of the discretionary further advance, the final maturity of the mortgage may not extend beyond July 2026.
- The first-loss fund must be at its required amount.
- The balance on the principal ledger must be equal to zero.
- There can be no breach by the borrower of the mortgage conditions under its loan.

In all cases where the issuer makes a mandatory further advance (see below), the issuer is obliged to make funds available from the principal ledger to fund such advance. If there are insufficient funds in the principal ledger, the administrator may draw on funds under the subordinated loan agreement (provided by Paragon Finance) in an amount required to cover such

No mandatory further advance will be made if the borrower breaches any of the mortgage conditions. The issuer will not agree to make a discretionary further advance if the sum of the discretionary and mandatory further made from principal received by the issuer is greater than £7 million.

In accordance with Standard & Poor's rating assumptions, as Paragon Finance does not have a sufficient rating, no reliance was placed on the mandatory further advances being financed out of the subordinated loan facility. Standard & Poor's has performed various cash flow stresses and is comfortable that the issuer's obligations with respect to the mandatory further advances can be funded out of available redemption funds.

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Note Terms and Conditions

The issuer is expected to issue three classes of notes: the class A notes ('AAA'), the class B notes ('A'), and the class C notes ('BBB'). The class A notes will rank senior to the class B notes and the class B notes will rank senior to the class C notes.

Interest on each class of notes will be payable at three-month British pound sterling LIBOR plus a fixed margin, which is yet to be determined, and which will step up after June 2008. Interest on the notes will be payable quarterly in

arrears on the 15th of March, June, September, and December each year, commencing on Sept. 16, 2002.

Interest on the class C notes will be deferred and paid after maintaining the first-loss fund and curing principal deficiencies in the waterfall if the balance of the principal deficiency ledger exceeds the class C notes size. Interest on the class B notes will be deferred and paid after maintaining the first-loss fund and curing principal deficiencies but prior to the payment of the class C note coupon if the balance of the principal deficiency ledger exceeds the size of the class B and C note principal amount outstanding.

Collections received in respect of payments from borrowers under the mortgages will be paid into the collection accounts held at NatWest in the name of the originators. These amounts will be transferred to the transaction account held at NatWest in the name of the issuer.

Both the collection accounts and the transaction account must be held in a bank that is rated at least 'A-1' with the exception of the funds representing the first-loss fund, which must be held in an account with a bank rated at least 'A-1+'. Cash held in an 'A-1' account may be invested for a period of not more than 30 days and such investments may not exceed 20% of the outstanding principal of the notes.

Mandatory Redemption

The notes will be subject to mandatory redemption in part on each interest payment date, from available funds. There will be no mandatory redemption of the class B and C notes during the first five years after the closing date (i.e., until June 2007). Thereafter, while the class A notes remain outstanding, redemption will be applied on a pro rata basis, subject to:

- The ratio of the class B and C notes to the aggregate of outstanding class A, B, and C notes being no less than 2.5 times the ratio at closing;
- There being a zero balance on the principal deficiency ledger;
- The minimum outstanding amount of the class B and C notes being 4.7% of initial note balance while any class A notes remain outstanding; and
- Arrears of more than three months being less than 20%.

After the class A notes have been fully redeemed, redemption of the class B and C notes will be applied on a sequential basis.

Optional Redemption

The issuer may redeem all the class A notes (and not some only) at their outstanding principal amount, together with accrued interest, in the following circumstances:

- A withholding tax is imposed on the notes or on payments by either party to the swap agreement; or
- The aggregate principal amount outstanding of the notes falls below million.

The issuer may also redeem the class A, B, and C notes on the interest payment date in June 2005 or at any time thereafter.

Final Redemption

If not already redeemed, the class A notes will redeem on their legal final maturity in March 2019, while both the class B and C notes will be redeemed at their legal final maturities in September 2028.

Withholding Tax

The issuer will not be required to gross up for any withholding tax that might be

imposed on the notes in future.

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Protection Against Key Risks (Credit and Liquidity)

Mortgage Interest Rate Setting

The administrator will, on behalf of the issuer and trustee, set the rates of interest applicable on the relevant mortgages (other than the LIBOR-linked mortgages or local U.K. authority mortgages). The administrator must ensure that the weighted-average contractual rate of interest applicable to the mortgages after taking into account any hedging arrangements and income received from the investment of funds in the transaction account is not less than 4.5% over note LIBOR. There will be no fixed or capped rate loans at closing.

The administrator may set a lower rate of interest to the extent that the shortfall can be provided out of amounts available in the shortfall fund (see below).

Subordinated Loan

Prior to closing, Paragon Finance will make available to the issuer a subordinated loan facility that will be drawn on closing. The facility will be used to purchase the preclosing arrears and establish the first-loss fund, thus achieving the initial rating on the notes.

The first loss fund will be funded at 1.9% of the outstanding notes (the "required amount") on closing. The following conditions must be satisfied in order for the required amount to be reduced to 3.8% of the current balance of the mortgages: (i) the principal deficiency ledger must be equal to zero; (ii) the mortgages that are greater than three months in arrears must not represent more than 6% of the entire mortgage balance; and (iii) the first-loss fund must have reached 3.8% of the current mortgage balance. The required amount will have a floor of the greater of £1,000,000 or two times the size of the largest loan outstanding.

Paragon Finance may make sufficient funds available to allow the issuer to make discretionary further advances to the extent that they cannot be funded out of the available redemption funds.

Additionally, Paragon Finance may (at its discretion) make further amounts available under the subordinated loan agreement, e.g., to reduce the principal deficiency ledger to zero, and to bring the first-loss fund up to an amount sufficient to fund the discretionary further advances.

Further amounts may also be borrowed, for example: (i) to cover swap and hedging amounts that are junior in the priority of payments (if necessary); (ii) to pay the issuer any prepayment fees waived by the administrator; and (iii) to fund the purchase of additional hedging instruments to the extent they cannot be funded out of the issuer revenue ledger in accordance with the priority of payments.

Amounts borrowed under the subordinated facility will be repaid in accordance with the priority of payments.

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Collateral Details

Collateral Description

The provisional mortgage pool of £270.7 million (including accrued arrears) comprises 6,150 loans and was drawn up on Feb. 28, 2002. The provisional pool includes about £34.3 million of accrued arrears. The loans in the provisional portfolio were originated by Paragon Finance, Société Générale,

and certain local U.K. authorities between 1985 and 1993 and have been administered by Paragon Finance since their origination or acquisition.

Features of the provisional mortgage pool include the following:

- Each loan is secured by a first legal charge of a residential property in England, Scotland, or Wales.
- Of the total pool, 3.19% are right-to-buy mortgages, 1.44% are local U.K. authority mortgages, 0.66% are stabilized rate mortgages, and 0.34% are shared ownership mortgages, with the remainder being standard owner-occupied mortgages.
- Of the total mortgages, 46.14% are repayment mortgages, and 53.86% are interest-only mortgages or endowment mortgages.
- Of the total loans, 46.78% were used for house purchases and 53.22% were used for remortgaging.
- The weighted-average LTV of the mortgage pool is 69.34%; however, after revaluing a portion of the seasoned mortgages by applying a percentage of the geographically weighted housing price inflation, the weighted-average LTV for the pool is 49.74%.
- The average outstanding mortgage balance is £38,439.
- The largest concentration of mortgages by geographic area is in the southeast of England (including Greater London) at 56.28%. There are no significant concentrations in other regions.
- The weighted-average term to maturity is approximately 10.9 years.

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Standard & Poor's Stress Test

The rating 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 needed. All types of loans are thus eligible for inclusion in a pool, provided their credit risk can be quantified and adequate loss protection is supplied.

A feature of the portfolio is the high level of preclosing arrears in the pool.

The cash flows simulate the performance of this portfolio in the transaction's documented structure under certain stressful scenarios. In addition, the issuer will make use of the swap to prevent mismatches in interest rates on any fixed-rate loans. Any bank accounts of the issuer are required to be with appropriately rated providers.

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Continual Surveillance

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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