MOODY'S
INVESTORS SERVICE

PRE-SALE REPORT

Paragon Mortgages (No. 16) PLC

RMBS / BTL / UK

Closing Date

[November 2011]

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Provisional (P) Ratings

Series	Rating	Amount (million)	% of Notes/	Legal Final Maturity	Coupon	Subordi-nation*	Reserve fund**	Total Credit Enhance-ment***
A	(P)Aaa(sf)	£[•]	[80.4]	[April 2039]	3mL +[2.75]%	[19.6]%	[3.0]%	[22.6]%
Z	Not rated	£[•]	[19.6]	[April 2039]	3mL	[0.0]%	[0.0]%	[0.0]%
Total		£[•]	[100.0]					

The rating addresses the expected loss posed to investors by the legal final maturity. In Moody's opinion the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

* At close.

** As a % of total notes

*** No benefit attributed to excess spread.

V Score for the UK BTL sector:	*Medium/High*
V Score for the subject transaction:	*Medium/High*

The subject transaction is a static cash securitisation of buy-to-let mortgages extended to obligors located in England and Wales. Subject to certain conditions there will be prefunding in the transaction whereby additional loans will be added in the six months following close (in an amount equal to £[29.1] million, i.e. [19.4]% of the principal amount of the notes to be issued, such figures being based on a £150 million pool size).

Asset Summary (£120.9 million Provisional pool cut-off date as of 11/10/2011*)

Seller(s)/originator(s):	Paragon Mortgages (2010) Limited (subsidiary of Paragon)
Servicer(s):	Moorgate Asset Administration Limited (subsidiary of Paragon)
Receivables:	First ranking buy-to-let mortgage loans to individuals and corporate borrowers secured by property located in England and Wales.
Methodology Used:	» Moody's Approach to Rating RMBS in Europe, Middle East and Africa, October 2009 (SF141262) » Moody's Approach to Rating UK RMBS, April 2005 (SF47735) » Moody's Updated Methodology for Rating UK RMBS, Sept 2009 (SF112854) » Cash Flow Analysis in EMEA RMBS: Testing Features with the MARCO Model (Moody's Analyser of Residential Cash Flows), January 2006 (SF58290) » V Scores and Parameter Sensitivities in the Major EMEA RMBS Subsectors, April 2009 (SF158654) » Moody's Enhanced Approach to Originator Assessments in EMEA RMBS Transactions, October 2009 (SF153718) » Global Structured Finance Operational Risk Guidelines: Moody's Approach to Analyzing Performance Disruption Risk, June 2011 (SF243145)

Asset Summary (Continued)

Models Used:	MILAN (UK settings) & ABSROM
Total Amount:	Up to £[150] million comprised of: (i) £[120.9] million of mortgage loans completed by the 31st of October 2011, (ii) £[29.1] million of pre-funded loans expected to complete by [6 months post-Close]
Length of Revolving Period:	Static, although there is prefunding in the deal; new loans can be added in the six months following the closing date.
Number of Borrowers:	[557]
WA Remaining Term:	[20.0] years
WA Seasoning:	[4.7] months
Interest Basis:	[36.0]% fixed rate up to September 2013, [64.0]% floating rate loans indexed to LIBOR
WA Current LTV:	[69.6]%
WA Original LTV:	[69.8]%
Moody's calculated WA indexed LTV:	[69.4]%
Borrower credit profile:	100% prime borrowers
Delinquency Status: Less than 30 days in arrears Greater than 30 days in arrears	 [0.5]% Nil
Borrower concentration: Top 10 borrower concentration Top 20 borrower concentration	 [10.8]% [14.0]%

*The asset summary is computed from the provisional pool as supplied to Moody's which is a subset of the combined provisional pool and post offer pipeline from the red prospectus. All the loans in the provisional pool are completed mortgage loans.

Liabilities, Credit Enhancement and Liquidity

Excess Spread At Closing:	[1.5]% annualised excess spread at closing. A portion of this excess spread - after payment of the administrator subordinated fee and the issue servicers provider fees - will be available to provide additional funds to repay the Class A Notes should they not be called at the call option date in [October 2014].
Credit Enhancement/Reserves:	[1.5]% Excess spread [3.0]% Non-amortising reserve fund (First Loss Fund) at close, building up to [4.0]% of closing note balance in the event where (i) 60 days + arrears exceed [3]% or (ii) cumulative losses exceed [2]% of the original notes' balance. Subordination of the Class Z notes
Form of Liquidity:	Principal to pay interest mechanism. Margin reserve to cover negative drag from prefunding and reserve fund. [3.0]% of the Class A Notes outstanding is ring-fenced within the Reserve Fund for the payment of interest on the Class A Notes and senior expenses. There is a shortfall fund to which the subordinated lender can credit funds so that it can meet the minimum margin requirements without increasing SVR.
Number of Interest Payments Covered by Liquidity:	Liquidity covers the equivalent of [5.3] months interest payments at a Libor of 5.7%. Interest payments are made quarterly so this is equivalent to more than one quarterly payment.
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Quarterly pass-through on each payment date
Payment Dates:	15th of January, April, July and October First payment date: [16 January 2012]
Hedging Arrangements:	There is a non balance guaranteed swap for the fixed loans but no swap for the mismatch between Libor index on the mortgages and Libor index on the notes and no swap between mortgage SVR and note Libor.

Counterparties

Issuer:	Paragon Mortgages (No. 16) PLC
Sellers/Originators:	Paragon Mortgages (2010) Limited, an wholly owned subsidiary of Paragon (Not rated)
Contractual Servicer(s):	Moorgate Asset Administration Limited (Not rated) (a Paragon Group company)
Sub-Servicer(s):	Mortgage Trust Services PLC (Not rated) (a Paragon Group company)
Back-up Servicer(s):	Homeloan Management Limited (Not rated), owned by Skipton Building Society (Ba1 / NP)
Back-up Servicer Facilitator:	Structured Finance Management Limited (Not rated)
Cash Manager:	Moorgate Asset Administration Limited (Not rated)
Back-up Cash Manager:	Homeloan Management Limited (Not rated), owned by Skipton Building Society (Ba1/ NP)
Calculation Agent/Computational agent:	Citibank, N.A. (A1/ P-1)
Back-up Calculation/Computational Agent:	N/a
Swap Counterparty:	Macquarie Bank Limited, London Branch (A1/P-1)
Issuer Account Bank:	National Westminster Bank Plc (A2 / P-1)
Collection Account Bank:	National Westminster Bank Plc (A2 / P-1)
Paying Agent:	Citibank, N.A. (A1 / P-1)
Trustee:	Citicorp Trustee Company Limited (Not rated)
Issuer Administrator/Corporate Service Provider:	Moorgate Asset Administration
Arranger:	Macquarie Bank Limited, London Branch (A1/P-1)
Joint Lead Manager(s):	Lloyds Bank Corporate Markets, Macquarie Bank Limited, London Branch and Morgan Stanley
Subordinated Lender	Paragon Finance PLC

Moody's View

Outlook for the Sector:	No Buy-to-Let sector specific outlook. Outlook is negative for UK Non-Conforming and stable for UK Prime
Unique Feature:	Collateral: [19.4]% Prefunding in the deal [50.5]% of loans in the provisional pool are initially interest only but revert to repayment.
Degree of Linkage to Originator:	Originator group companies performs servicing and cash bond management replacement although a backup has been appointed at close.
Originator's Securitisation History:	
# of Precedent Transactions in Sector:	21
% of Book Securitised:	[82]%
Behaviour of Precedent Transactions:	» Performance of Paragon transactions has been consistently better than the buy-to-let residential sector average. » Due to the downturn in the UK housing market in November 2010, as part of its BTL portfolio review, Moody's increased its expected loss in all nine of Paragon's deals which closed since May 2004. The MILAN Aaa CE were not increased. No downgrades on any rated debt, although Moody's placed the nine outstanding Paragon deals on review for possible downgrade on 14 October 2011 due to concerns on operational risk following the downgrade of Skipton Building Society. In each of these previous deals HML is the back-up servicer and back-up cash manger and the main servicer is not rated by Moody's. In the absence of (i) a facilitator to replace a back-up servicer and back up cash manager if so required and (ii) estimation language in the transaction documents to ensure continuity of payments in case of servicer or back up servicer disruption, the servicing arrangements may not be commensurate with those required to achieve a Aaa (sf) rating.
Key Differences between Subject and Precedent Transactions:	**Assets:** Mortgages revert to SVR rather than Libor rate Lower overall LTV's [50.5]% of loans in the provisional pool are initially interest only but revert to repayment at year 5. **Liabilities:** Liquidity amount of reserve fund is available from close (in previous deals this is following breach of an arrears trigger). Inclusion of unrated Z Notes A back up servicer facilitator is present and the transaction contains estimation language.
Portfolio Relative Performance:	
Expected Loss/Ranking:	[3.0]%- higher than prior Paragon transactions due to risks connected to high borrower concentration.
MILAN Aaa CE/Ranking:	[20.5]% - higher than peer group due to borrower concentration risk.
Weighted-Average Aaa Stress Rate For House Prices for a benchmark loan:	[48.7]%
Potential Rating Sensitivity:	
Chart Interpretation:	At the time the rating was assigned, the model output indicated that Class A would have achieved a Aaa rating even if the expected loss was as high as [9]% assuming MILAN Aaa CE remained at [20.5]% and all other factors were constant.
Factors Which Could Lead to a Downgrade:	

TABLE 1*:

Tranche A

		MILAN Aaa CE Output			
		20.5%	24.6%	28.7%	32.8%
Median Expected Loss	3.0%	Aaa*	Aa1(1)	Aa1(1)	Aa1(1)
	4.5%	Aaa(0)	Aa1(1)	Aa1(1)	Aa2(2)
	6.0%	Aaa(0)	Aa1(1)	Aa2(2)	Aa3(3)
	9.0%	Aaa(0)	Aa1(1)	Aa3(3)	A1(4)

* Results under base case assumptions indicated by asterisk ' * '. Change in model-indicated rating (# of notches) is noted in parentheses.

Composite V Score

Breakdown of the V Scores Assigned to			UK BTL RMBS Sector	Trans-action	Remarks
Composite Score: Low (L), Low/Medium (L/M), Medium (M), Medium/High (M/H), or High (H). "Low" reflects lowest level of uncertainty in estimating credit risk relative to other Structured Finance instruments.			M	M	
1	**Sector Historical Data Adequacy and Performance Variability**		**M/H**	M/H	
	1.1	Quality of Historical Data for the Sector	M/H	M/H	» Same as sector score
	1.2	Sector's Historical Performance Variability	M	M	» Same as sector score
	1.3	Sector's Historical Downgrade Rate	M	M	» Same as sector score
2	**Issuer/Sponsor/Originator Historical Data Adequacy, Performance Variability and Quality of Disclosure**		**M/H**	M	
	2.1	Quality of Historical Data for the Issuer/Sponsor/Originator	M/H	M	The originator provided: » Loan by loan data on 1,235 loans which had been repossessed between 2003 and 2011 » Roll rates between arrears buckets for the period 2007 and 2011 » Three month arrears and loss vintage data split by quarter since 1996. » Vintage data on performance in the last recession was not available.
	2.2	Issuer/Sponsor/Originator's Historical Performance Variability	M	L/M	» Performance of Paragon transactions has been better than the buy-to-let sector average. » Due to the downturn in the UK housing market in November 2010, as part of its BTL portfolio review, Moody's increased its expected loss in all nine of Paragon's deals which closed since May 2004. The MILAN Aaa CE were not increased. » No downgrades on any rated debt. » Moody's placed the nine outstanding Paragon deals on review for possible downgrade on 14 October 2011 due to concerns on operational risk following the downgrade of Skipton Building Society from Baa1/P-2 to Ba1/NP.
	2.3	Disclosure of Securitisation Collateral Pool Characteristics	L/M	L/M	» All key data fields provided in addition to data on year of construction, number of properties owned by the borrower, borrower age and first time buyer flag. Moody's has seen a draft AUP report which is in line with expectations.
	2.4	Disclosure of Securitisation Performance	L/M	L/M	» The administration agreement has a list of items which the investor report will contain but it is not presented in the final format. » The investor report is broadly in line with other deals.
3	**Complexity and Market Value Sensitivity**		**M**	M	
	3.1	Transaction Complexity	M	M	» This is a stand-alone transaction which is in line with other deals from originators of a similar size to Paragon. » No substitution allowed but prefunding and further advances present. » Triggers for reserve fund build up and pro rata triggers present.

	3.2	Analytic Complexity	L/M	M	» Standard asset and cash flow models have been used to assess the transaction making the analysis less complex than master trusts. » There is however: » No swap in place for SVR loans » No separate liquidity facility » Higher than average borrower concentration meaning that performance may be more volatile than a less concentrated pool. » Around [20]% prefunding meaning the final pool could change post closing.
	3.3	Market Value Sensitivity	L/M	L/M	» The assets are secured financial assets where the underlying properties have a reasonably liquid secondary market.
4	**Governance**		**M/H**	M/H	
	4.1	Experience of, Arrangements Among and Oversight of Transaction Parties	M	L/M	» Originator and servicer has over 10 years experience of securitisations that have been publicly sold.
	4.2	Back-up Servicer Arrangement	M	M	» Servicer is not rated but there is a warm back-up for the servicer and cash manager appointed at close. » There is also a back up servicer facilitator appointed at close. » The back-up servicer and cash manager has the right to resign after 12 months even if no other back-up servicer has been found.
	4.3	Alignment of Interests	M/H	M/H	» Expected that Class Z Notes will be held by Paragon. Paragon also covenants to retain 5% minimum for the life of the deal
	4.4	Legal, Regulatory, or Other Uncertainty	L/M	L/M	» Notes are limited recourse so recent Eurosail Court of Appeal judgment in BNP Corporate Trustee Services Ltd v Eurosail UK 2007-3BL PLC concerning the effect of post enforcement call options does not apply.

Strengths and Concerns

Strengths:

» **Asset quality: The high quality of the collateral held in the pool.** The contraction in lending in the UK mortgage market has been particularly pronounced in the buy-to-let sector and so from a lender's perspective it has been possible to tighten underwriting criteria so that weaker borrowers are excluded from new lending. Particular strengths include:

- Low LTV's: Maximum LTV of loans included in the pool is 75% (before accounting for fees) compared with 85% for prior Paragon deals. For loans above £500k and £1,000k the LTV is restricted to 70% and 65% respectively. The average original, current and indexed LTV are all below 70% and this compares favourably with the overall buy-to-let market;
- No borrowers have been subject to any bankruptcy individual voluntary arrangement or county court judgments.
- Geographical concentration: [56.2]% of the provisional pool is in London and the South-east, compared with a market average of around 37%. Recent surveys of the UK property market show that the London market is the most robust area in the country, followed by the South East.
- Experience of Paragon in the buy-to-let sector:
  - Paragon's lending decision takes into account the value of the underlying property in the case of asset sale and the value of the underlying rental cashflows. Valuation reports include comparables on both the sale value and rental cashflows;
  - Senior management has 12 years experience on average;
  - The performance of existing Paragon deals has been better than the BTL sector average (please see "Benchmark Analysis" for more details).

Concerns and Mitigants:

Moody's committees particularly focused on the following factors, listed in order of those most likely to affect the ratings:

» **Borrower concentration:** It is expected that there will only be around [725] borrowers in the final pool of around £[150]m following prefunding with just 557 borrowers in the provisional pool of £120.9m. This concentration risk means that the deal is potentially exposed to a significant loss if the performance of a small number of individuals is worse than expected; for example the top 20 borrowers account for [13.95]% of the balance of the provisional pool although there is a representation that all the pre-funded loans will be to new borrowers and so this will not increase in £-amount. Should the full amount of prefunding be added, this will reduce to around [11.3]% of the final £[150] million pool. Moody's took this risk into account when determining the MILAN Aaa CE number and the expected loss for the pool. Please see "Treatment of concerns" for further details.

» **Operational Risk:** Paragon is not rated by Moody's and group companies are the originator servicer and cash manager in the transaction. The deal is therefore exposed to counterparty and operational risk.

» In mitigation there is:

- a warm back-up cash manager
- a warm back-up servicer,
- a back-up servicer facilitator,
- the transaction has the equivalent of [5.3] months of liquidity
- language in the transaction documents to enable payments to noteholders to be made using estimated amounts in the event of relevant information on cash balances not being available.

» Please see treatment of concerns for more information on this.

» **Absence of SVR swap and minimum margin requirement risk:** The deal contains a commitment that the servicer must set the SVR rate so that the asset yield will be 4% above Libor pre [October 2016] and 4.5% above Libor following this date or alternatively enhance the margins through drawings on the subordinated loan to credit the shortfall fund. The underlying mortgages state that a change in the lender's cost of funding is a reason why rates could be increased. However it is Moody's view that this will not be enforceable in all circumstances as it could be deemed unfair as the borrowers do not have power to renegotiate terms and there is no mention of proportionality.

As there is no swap in the deal to hedge SVR risk, the deal is exposed to the risk of the servicer being unable to set the SVR high enough to enable the margin conditions being met. Please see treatment of concerns for more details and an explanation of how Moody's has stressed the asset yield.

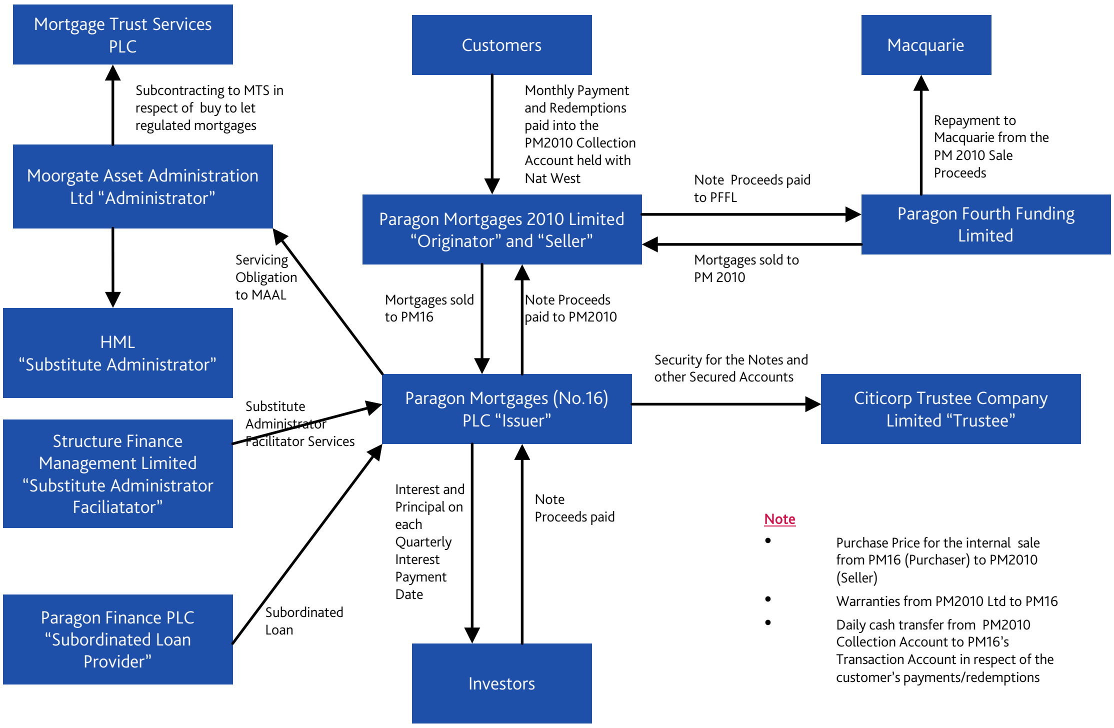
» **Prefunding:** Subject to certain conditions the structure allows additional loans to be added in the six months following close. Prefunding in the deal will equal [19.4]% of the principal amount of the notes to be issued, with £[29.1] million of pre-funded loans expected to complete by [April 2012]. This potentially introduces additional risks as the asset quality could have deteriorated compared to that at close. In mitigation there are a number of performance criteria linked to asset quality, borrower concentration and transaction performance which must be met prior to the loans being added. In addition, any funds in the prefunding reserve not used by [April 2012] will be released and used to repay Class A notes. Please see "Treatment of concerns" for further details.

» **Vintage concentration:** The performance of a pool of loans originated over a short period years is more volatile than one spread over a number of years. Over [90]% of the loans in the provisional portfolio have been originated in the eight months to September 2011, with the prefunded loans all requiring to be originated in the six months following close of the transaction. The vintage concentration risk is compounded in the case of this deal as the majority of the borrowers are significantly exposed to the real estate sector. Additionally [50.5]% of loans in the provisional pool will switch to repayment after five years and so all these loans will experience a payment shock at the same time. Should there be limited opportunities for refinancing, borrowers with loans reverting to repayment would all be exposed to the same risk at the same time. Moody's has taken this into account by the absence of seasoning credit and penalising all loans which were not repayment in the provisional pool with the standard 25% MILAN penalty for interest only loans.

» **Receiver of rent:** Paragon has used receiver of rent as means of controlling arrears and losses since 1999. Moody's believes that should the buy-to-let market weaken significantly that this could lead to an increase in loss severities. This would follow as in a severe recession a receiver of rent may be unable to successfully re-let a vacant property and so repossession would occur in any case but with a lag and an increased loss severity. Additionally this is an operationally more complex method of resolving payment problems compared with attempting to foreclosure sooner which could be compounded in cases where the servicer itself is under financial pressure. Finally due to the large holdings of some of the borrowers in the pool and the likelihood of a borrower defaulting on all his or her debt obligations at the same time there is the requirement for the receiver of rent to respond to peaks of local demand. In today's less severe economic scenario, this has yielded positive results to date with Paragon performance metrics comparing favourably to the sector average. This is due to rental demand increasing as tight credit conditions prevents would be first time buyers from purchasing a property in combination with the lower repossession timings seen to date compared with a standard enforcement procedure. Moody's MILAN and Expected loss numbers take the use of receiver of rent into account.

Structure, Legal Aspects and Associated Risks

CHART 1
Structure Chart



Allocation of payments/pre accelerated revenue waterfall: On each quarterly payment date, the issuer's available funds (i.e. interest amounts received from the portfolio, the reserve fund, and interest earned on the issuer's account) will be applied in the following simplified order of priority:

1. Senior expenses & senior administration fee;
2. Payments to the Swap counterparty;
3. Interest on Class A;
4. PDL on Class A;
5. Issuer Profit;
6. First Loss Fund replenishment;
7. Payments due to third parties;
8. Interest on Class Z (until October 2014);
9. Junior administration fees;
10. Excess spread to pay down Class A Notes after call option date in [October 2014];
11. Interest on Class Z (from October 2014 onwards); and
12. Amounts due on the Subordinated Loan.

Allocation of payments/pre-accelerated principal waterfall: On each quarterly payment date, the principal amounts received from the portfolio, unutilised amounts from the pre-funding reserve and amounts applied to clear PDL will be applied in the following simplified order of priority:

1. If needed, to replenish the First Loss Fund up to the Liquidity Amount;
2. Provided that the release from the Margin Reserve Fund and the First Loss Liquidity Excess Amount are not sufficient to cover the senior expenses and interest shortfalls in items 1 to 6 of the revenue waterfall, to cover the potential shortfalls in items 1 to 3;
3. Principal payments in sequential order:
   - To redeem the Class A Notes until repaid in full;
   - To redeem the Class Z Notes until repaid in full;

Allocation of payments/PDL-like mechanism:

PDL is recorded when there is 1) realised losses 2) replenishment of the First Loss Fund up to the Liquidity Amount (as defined below) and 3) use of principal to cover potential interest shortfalls. A realised loss is defined as the difference between the outstanding amount of the loan and any proceeds after the foreclosure of a mortgage loans.

The issuer is a subsidiary of The Paragon Group:

» The Issuer is a special purpose vehicle incorporated in England and ultimately 100% owned by The Paragon Group of Companies PLC. Typically, UK RMBS transactions rated by Moody's have featured an orphan SPV as issuer. The fact that the Issuer is not an orphan company introduces additional risks not typically found in UK RMBS transactions:

- As a matter of UK tax law, it is possible that a subsidiary can be fixed with liabilities for tax of another member of its group. In this case, Moody's expects that an extensive range of undertakings will provide assurance that the chance of such secondary liabilities arising is remote.
- A company organised in the UK can be wound up by a shareholders' resolution. Whilst, in the circumstances, there might be little advantage to be gained by a liquidator of the Issuer's parent company by doing this, Moody's stress scenarios envisage such an attempt being made. There could be claims due to, for example, tax or pensions claims. Moody's is, however, satisfied that the combination of the non-petition covenants given by the parent companies in the Paragon group, and the share ownership structure of the Issuer, effectively eliminate this risk. The legal opinions confirm this point.
- Moody's believes that the issuer's status as a securitisation company taxable under the permanent tax regime is not affected by the fact that it is a member of a group of companies for tax purposes.

The issuer is part of The Paragon VAT Group

- In common with other Paragon transactions rated by Moody's (see the previous "Paragon Mortgages" deals), but unlike the vast majority of UK RMBS transactions, the Issuer is grouped with the rest of the Paragon Group for VAT purposes. The VAT grouping means that services or goods provided between members of the VAT group are not subject to VAT (which would otherwise be payable on servicing fees); but, as a consequence, each member of the VAT group is jointly and severally liable for VAT liabilities of all other members of that group. A long standing arrangement is in place to mitigate this risk:
- A Trust Account, held in the name of Citicorp Trustee Company Limited as trustee with National Westminster Bank Plc (A2 / P-1), can be used by any member of the VAT group to meet group VAT liabilities should PFPLC (which, as representative member, is primarily liable for group VAT) fail to do so. PFPLC must maintain a minimum balance in the Trust Account equal to the greater of (1) £ 120,000, (2)1.2 times the actual VAT liability for the Paragon VAT Group in the last two accounting periods, or (3) 1.2 times the sum of the estimated VAT liabilities of the Paragon VAT Group for the current and next succeeding accounting periods.
- 2) If PFPLC fails to pay VAT due by it, or fails to maintain the minimum balance in the Trust Account), the Issuer will automatically be de-grouped; on a degrouping, no new VAT liabilities will arise but any that exist remain. The VAT authority cannot prevent a company from de-grouping, but it must be given 90 days' prior notice. There is no legal opinion on the VAT declaration of trust.
- Additionally, Moody's has run scenario analysis assuming that the issuer is required to pay group VAT costs.

Performance Triggers

Trigger	Conditions	Remedies/Cure
Pre-funding	Moody's does not affirm that the purchase of the additional mortgage loans does not adversely affect the then current rating of the notes; or WA LTV of the pool is more than [70.5]%; or Weighted interest coverage ratio on the portfolio is less than [152]%; or The top 20 borrowers make up more than £[16,856,390]; or Prefunded loans are not made to unique borrowers	The additional mortgage loans will not be included in the pool. Any amount standing to the credit of the pre-funding reserve will be used as principal to pay down the notes on the second IPD
Reserve Fund Build-up	The arrears level (defined as the percentage of loans that are more than 60 days in arrears) exceeds [3.0]%% or Cumulative losses exceed [2.0]%	If one of the conditions is met, the Reserve Fund will build up from [3.0]% to [4.0]%of the initial note balance.
Stop Further Advance (FA)	The Reserve Fund is not at its required amount or Amount of FA is greater than [16]% of original pool balance	No further advance allowed

	Following the FA, the average LTV is not more than [1]% above the average LTV as determined on the second PDD. 90 day arrears is greater than [2.00]% The loan subject to FA has been delinquent at least once over the previous three months PDL greater than zero following any application of subordinated loan drawdown.

Reserve Fund: The Reserve Fund (First Loss Fund) will be fully funded at closing from the Subordinated Loan and non-amortising: £[•], i.e. [3.0]% of the initial note balance.

The reserve fund will be replenished before the interest payment on the Class Z notes.

If at any time, more than [3.0%] of the mortgages are more than 2 months in arrears (**Arrears Trigger**), or if cumulative losses are greater than [2.0]% (**Loss Trigger**), the Required Amount of the First Loss Fund will increase from [3.0]% to [4.0]% of the original notes' balance through the capture of excess spread and drawings on the Subordinated Loan, and will have to be maintained at that level thereafter.

Moody's gives benefit to the Loss trigger but not to the Arrears Trigger in its cashflow analysis.

While the Class A Notes are outstanding, [3.0]% of the outstanding balance of such notes will only be available to pay senior fees and note interest and so is not available to cover losses.

Moody's considers that the reserve fund in this transaction is slightly weaker than other comparable UK RMBS transactions as it can also be used for liquidity purposes.

Margin Reserve Fund: the Margin Reserve Fund will be funded at closing from the Subordinated Loan to an amount equal to £[•], i.e. [0.41]% of the original notes' balance. It will be distributed as part of the revenue waterfall over the first two interest payment dates. In the event where the teaser period interest of the prefunded loans to be included in the deal is lower than Libor + 3.5%, the Margin Reserve Fund will be topped up by the difference between Libor + 3.5% and the actual teaser rate.

Liquidity:

» **Principal to pay interest mechanism**: principal receipts under the mortgage loans will be available to cover potential interest shortfalls via item 2 of the principal waterfall.

» **The Liquidity Reserve is a further source of liquidity:** the Liquidity Amount (included as part of the First Loss Fund requirement) is equal to [3.0]% of the outstanding Class A Notes and can be used to cover any remaining potential interest shortfalls in items 1 to 3 of the revenue waterfall after application of the Margin Reserve Fund and the First Loss Liquidity Excess Amount.

» Moody's considers that the first loss liquidity excess reserve fund in this transaction is slightly stronger than previous Paragon transactions as it is not dependent on an arrears trigger and so will always be available for liquidity purposes if funded.

Assets:

Asset transfer:

» True Sale by way of equitable assignment

Borrower concentration:

» As discussed in concerns and mitigants on page [] the top 20 borrowers account for [13.95]% of the balance of the provisional pool which is expected to reduce to less than [12]% of the final £[150] million pool.

Interest-Only Loans:

» There are [90.13]% interest-only loans in the provisional pool at close, including 50.1% of loans, which revert to repayment after 5 years. The remainder ([40]%) of loans are interest-only for life. Moody's applied the standard 25% interest-only MILAN penalty to all loans which are not repayment at close.

Mitigant:

» Moody's has conducted a borrower-by-borrower analysis of these loans and has concluded that the credit risk from the largest borrowers in the pool is in line with the pool has a whole. The credit score from Paragon's bespoke scorecard is in line with the overall pool, with 19 out the top 20 borrowers being self employed.

» None of the borrowers had been in arrears in the previous 24 months or since date of origination if more recent.

» The borrowers had been at their current address for over 10 years on average.

Interest rate mismatch:

- Fixed-Floating mismatch: At closing, [36.04]% of the provisional pool balance includes fixed rate mortgages, which will revert to Paragon's standard variable rate between [October 2011] and [September 2013]. The notes pay [three]-month sterling LIBOR which leads to an interest rate mismatch in the transaction.
- Base rate mismatch: Upon reversion, 100% of the pool balance will be exposed to the risk of variance between Paragon's standard variable rate (received on the mortgage loans) and three-month sterling LIBOR payable on the notes.

Mitigant:

- To mitigate the fixed-floating rate mismatch, the issuer has entered into a swap agreement with Macquarie Bank Limited, London Branch which matures in [July 2013] once all fixed rate loans have rolled off. Under the swap agreement:
- The issuer will pay a fixed swap rate of around [1.68]% in all periods until [July 2013]- other than [1.50]% in June 2013 and [1.25]% in [July 2013].
- The swap counterparty will pay three-month sterling Libor.
- The notional is fixed until [November 2012] and then decreases until [July 2013]- in accordance with an amortization schedule, meaning that it will potentially deviate from the outstanding fixed-rate loan balance over time should prepayments or defaults occur before [August 2013].
- This deviation risk is however limited by the fact that fixed-rate mortgage currently face a 5% early repayment penalty until [July 2013].
- The transaction is unhedged with respect to standard variable rate loans. Instead, as in previous Paragon transactions, this transaction will benefit from a Minimum Margin Rate ("MMR") which provides some guarantee as to the amount of excess spread that will be available. Under the MMR, the servicer will have to set the rate on the variable rate mortgages in the pool or alternatively enhance the margins through drawings on the Subordinated Loan so as to ensure that the weighted average interest of the pool plus income from early redemptions and any other income received by the issuer is at least [4.0]% over the Libor rate applicable to the note prior to the call option date and [4.5]% after the call option date.
- During the discount period of the loans the MMR is collateralised, however to account for the fact that the legal opinion does not give any definitive opinion in relation to the enforceability of the MMR, Moody's has haircut the available spread after this period (around [2] years after close by 1%).

Cash Commingling: All of the payments under the loans in this pool are collected by National Westminster Bank Plc under a direct debit scheme into the collection account in the name of the Seller.

Mitigant:

- There is a declaration of trust over the account in favour of the Issuer.
- Payments are transferred daily to the issuer account in the name of the SPV held by National Westminster Bank Plc (A2 / P-1).

Loan substitution: No substitutions are allowed.

Loan conversion: No loan conversions are allowed.

Further Advance: The Seller can grant further advances to the loans already in the pool, which may give rise to liquidity concern for the pool.

Mitigant: The key eligibility criteria for further advances are as follows:

- The Lending guidelines are satisfied.
- The various triggers in the "Performance Triggers" section continue to be met.
- The same hedging arrangement must be in place as for the closing pool.

Moody's considers that the triggers and criteria for adding further advances in the Paragon Mortgages (No. 16) Plc pool is in line with the criteria seen in other UK buy-to-let RMBS transactions.

Moody's has applied a penalty of [0.50]% to the MILAN Aaa CE number to take into account the risk associated with the LTV in the portfolio increasing to the higher weighted average LTV limit ([70.5]%).

Originator Profile, Servicer Profile and Operating Risks

Date of Operations Review:	5 May 2011

Originator Background: Paragon

Rating:	» Not rated
Financial Institution Group Outlook for Sector:	» Negative
Ownership Structure:	» PLC
Asset Size:	» £9.3 billion assets under management
% of Total Book Securitised:	» 82% excluding warehouse
Transaction as % of Total Book:	» [•]
% of Transaction Retained:	» Class Z Notes will be held by Paragon

Originator Assessment	Main Strengths (+) and Challenges(-)
Overall Assessment:	**Average**
Originator Ability	
Sales & Marketing Practices	+ Separate sales and underwriting function + 1-2-1 meetings with professional landlords - Origination channels: 90% brokers vs. 10% packagers with lower broker delivery as the infrastructure seems to make it too easy for brokers to send non-eligible clients
Underwriting Policies & Procedures	+ Depending on the complexity of the file underwriters spend between 1.5/4 hours and have a high level of experience – (64% have more than 10 years experience). + No exceptions allowed. However, we came across one exception during the file review which exceeded the total exposure limit though it was funded by two separate warehouse facilities + No CCJ and no self-certification - Income data is collected yet is not relied upon in the affordability calculation
Property Valuation Policies & Procedures	+/- Full internal valuation performed by internal qualified surveyors. Expertise on rentability of property is needed. + Extensive report produced with pictures, comparables and rentability assessment.
Closing Policies & Procedures	All checks are performed through notary with all documents being imaged
Credit Risk Management	Specific product though moving more to more risky non professional landlords Independent risk management team with separate reporting lines.
Originator Stability	
Quality Control & Audit	+ Independent team with 4 people in their team. Small centralised team that can do the checks on underwriters locally.
Management Strength & Staff Quality	+ Average experience of underwriter's manager is 12 years + 64% of underwriters have more than 10 years experience + Training involves "buddy" principle with 4 eyes review 20% turnover rate
Technology	Internally built system Timely information received upon request Documents are scanned and are available in the head office.

Servicer Background:

Rating:	» Not rated
Total Number of Mortgages Serviced:	» 60,000
Number of Staff:	» 70

Servicer Assessment:	Main Strengths (+) and Challenges (-)
Overall Assessment:	**Average**
Servicer Ability	
Loan Administration	+ All loan administration functions performed centrally
Early Arrears Management	+ Early warning signs used such as cancelled direct debits and through monthly external credit checks for all loans. + Proactive and early contacting of the borrowers.
Loss Mitigation and Asset Management	+ Few repossessions and low losses - Active receiver of rent strategy to mitigate losses
Servicer Stability	

Servicer Assessment:	Main Strengths (+) and Challenges (-)
Management Strength & Staff Quality	+ Very experienced staff + Low turnover
IT & Reporting	+ Improvements in the IT system + Frequent back up testing.
Quality control & Audit	+ Overall robust quality control framework + Daily audits to examine the adequacy between issues encountered by borrowers and action taken by collectors - Not all phone calls recorded

Strength of Back-up Servicer Arrangement:	

Back-up Servicer Background: Homeloan Management Limited

Rating:	Not rated
Type of back-up:	Warm
Receivable Administration:	
Method of Payment of borrowers in the pool:	Direct debit for all completions
% of Obligors with Account at Originator:	None
Distribution of Payment Dates:	Payments are on the last working day of the month.

Cash Manager Background: Paragon

Rating:	Not rated
Main Responsibilities:	Preparation of investor report Obligation to make payments according to waterfall
Calculation Timeline:	Collection period: last working day of March, June, September and December Calculation date: first working day of January, April, July and October IPD: 15th of January, 15th of April, 15th of July and 15th of October (if not a business day, then the next succeeding business day) End of grace period: 3 local business days of the IPD S

Back-up Cash Manager Background: Homeloan Management Limited

Back-up Cash Manager and Its Rating:	Homeloan Management Limited (Not rated), owned by Skipton Building Society (Ba1 / NP).
Main Responsibilities of Back-up Cash Manager:	Calculation date: last business day of March, June, September and December IPD: 15th day of January, April, July and October Note Interest Determination Date: 1st day of each interest period (which runs between two IPDs)

Originator/Servicer/Cash Manager Related Triggers	
Key Servicer Termination Events:	Insolvency, payment default, non–performance
Appointment of Back-up Servicer Upon:	Appointed at closing
Key Cash Manager Termination Events:	Insolvency, payment default, non–performance.
Appointment of Back-up Cash Manager Upon:	Appointed at closing
Notification of Obligors of True Sale	Termination of MAAL as administrator or service of an enforcement notice.
Conversion to Daily Sweep (if original sweep is not daily)	Ongoing daily sweep
Notification of Redirection of Payments to SPV's Account	None
Accumulation of Set Off Reserve	Not applicable
Accumulation of Liquidity Reserve	Not applicable

Collateral Description (provisional pool as of 11/10/2011)

CHART 2

Portfolio Breakdown by Year of Origination

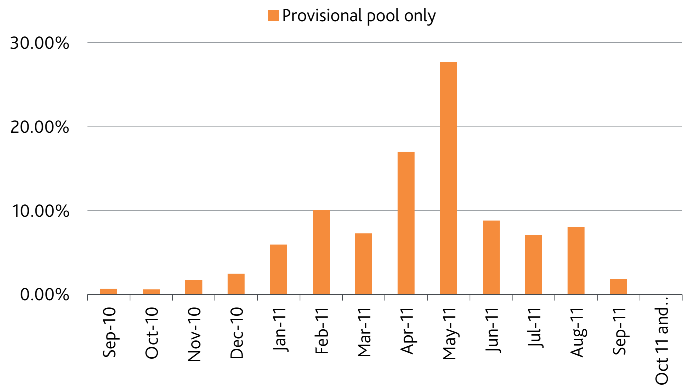


CHART 3

Portfolio Breakdown by LTV

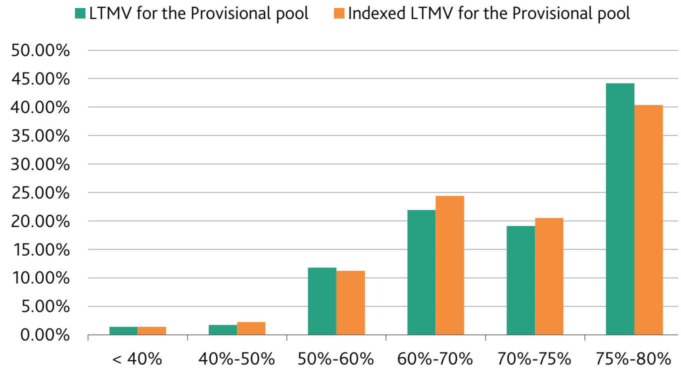


CHART 4

Portfolio Breakdown by ICR

ICR based on Moody's stressed borrower payment rate of 7%

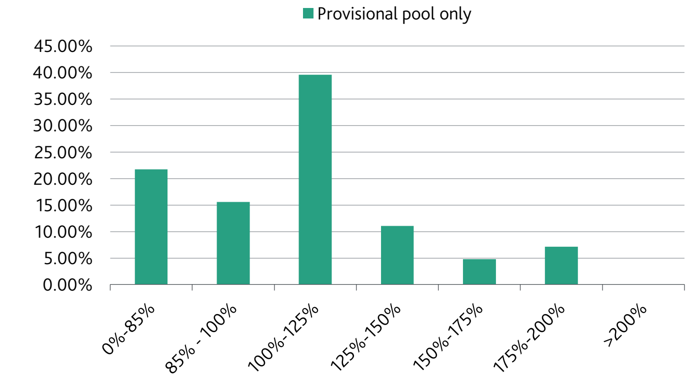


CHART 5

Portfolio Breakdown by ICR

ICR based on underwriting interest rate

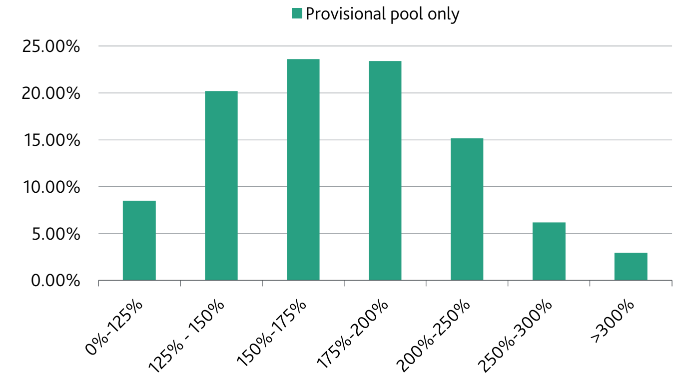
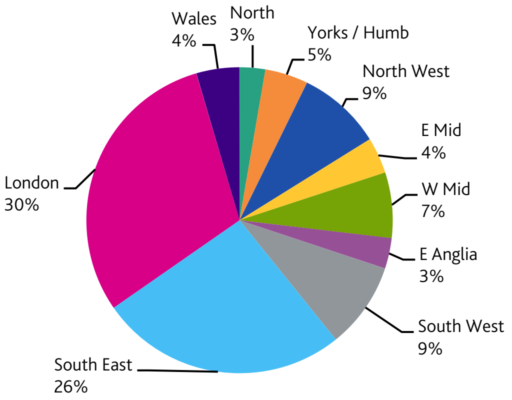


CHART 6

Portfolio Breakdown by Geography

Provisional Pool



Product Description: The assets backing the notes are first-ranking prime buy-to-let mortgage loans originated by Paragon Mortgages (2010) Limited under the Paragon brand. All the loans in the pool are secured on residential properties located in the UK.

Eligibility Criteria: The key eligibility criteria are as follows:

» Each loan constitutes a valid and binding obligation of the borrower, and is a first legal charge over the property;

» The properties are located in England and Wales and do not have agricultural restrictions and are not construction loans;

» The maximum initial mortgage term is 25 years and the minimum term is 5 years;

» The final maturity date is not later than 2037;

» Prior to making an initial mortgage loan, a valuation is made either by a valuation by the Seller's valuer or a valuer appointed on the Seller's behalf. Further advances may be made using indexed valuations;

» No loans will be included in the portfolio where total lending to the borrower by Paragon is greater than £[5,000,000];

» All borrowers were at least 18 years old at the origination date of the mortgage; and

» Rental value is at least 125% of the reference rate multiplied by the loan balance, and at least 130% in the case of professional landlords.

» The first monthly payment due has been paid by the borrower.

Special Situations:

» The portfolio consists of loans categorised by the Seller as being Buy-to-Let Loans.

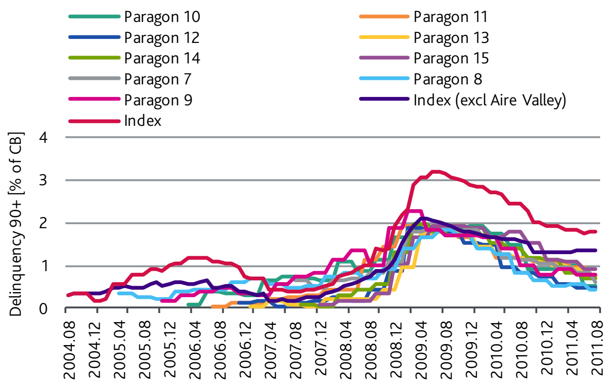
Credit Analysis

Precedent Transactions' Performance:

» The performance of the originator's precedent transactions in this sector are within Moody's expectations.

CHART 7

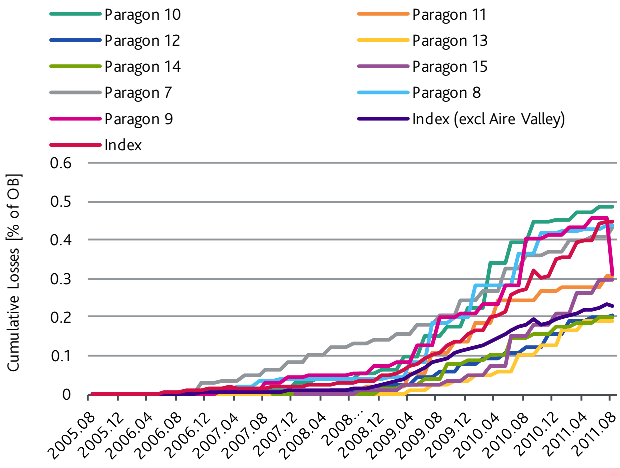
90+ Days Arrears for Paragon transactions



Source: Moody's Investors Service, Moody's Performance Data Service, periodic investor/servicer reports

CHART 8

Losses for Paragon transactions



Source: Moody's Investors Service, Moody's Performance Data Service, periodic investor/servicer reports

Data Quantity and Content:

» Moody's has received loan by loan data on 1,235 loans which were repossessed from 2003 through 2011.

» In addition, Moody's has received meaningful information about 90+ Days arrears and loss vintage data split by quarter since 1996, along with roll rates between arrears buckets for the period running from 2007 to 2011.

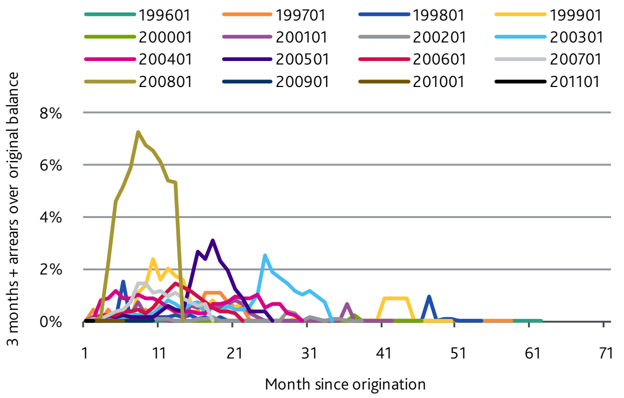
» In Moody's view, the quantity and quality of data received is appropriate compared to transactions which have achieved high investment grade ratings in this sector.

» Whole book vintage data was not available going back to the last recession.

CHART 9

Selected Vintage arrears data from Paragon's book

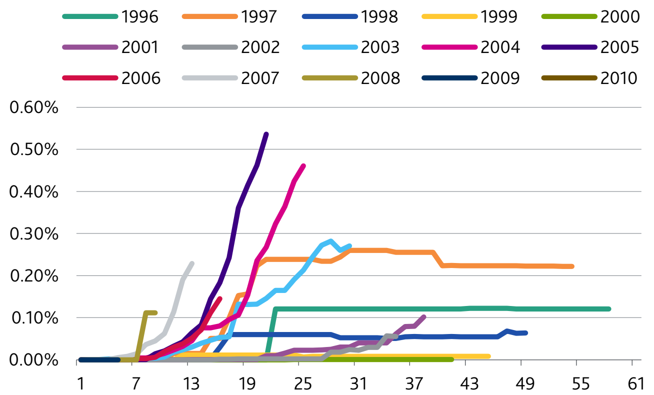
N.B: please note that the curve for the 200801 vintage arrears is not representative given that the sample size was very small in 2008 due to the warehouse closing in February that year.



Source: data provided by the originator

CHART 10

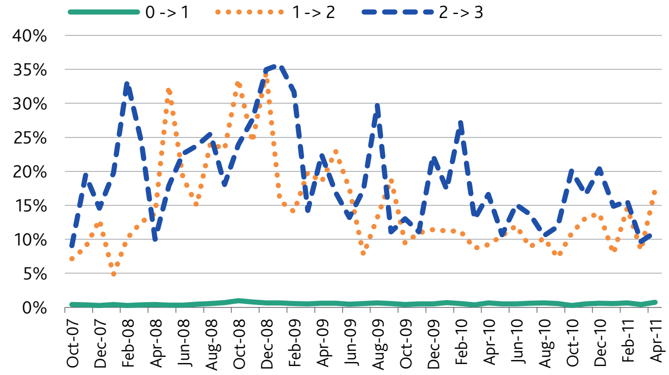
Selected vintage losses data



Source: data provided by the originator

CHART 11

Roll rates (in months delinquent)

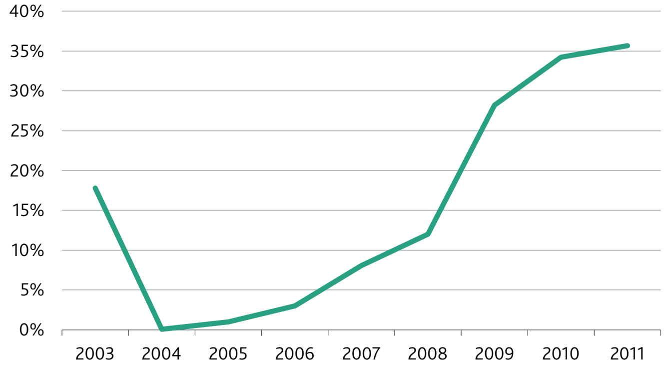


Source: data provided by the originator

CHART 12

Average loss severity per year of sale

Source: data provided by the originator



Assumptions and definitions Other values within a range of the notional amount listed below may result in achieving the same ratings.

Assumptions	
Spread compression / margin analysis	Moody's has given partial credit to the minimum margin requirement and has haircut the yield by 1% in periods when it is not collateralised.
Stressed Fees	[0.50%] p.a. + £[100,000] fixed fees
Definitions	
WA asset margin at closing	[3.5]% margin post swap at closing taking into account discount margin reserve.
WA asset margin after reset	All loans will revert to Paragon SVR.
Asset reset date	Fixed loans reset between July 2011 and July 2013
Liabilities reset date	Not applicable, although there is an optional call in [October 2014]
Interest on cash	Libor – [•]%
Actual Fees	[0.15]% p.a. + £[8,000] fixed fees paid senior, a further [0.15]% of servicing fee is paid junior in the waterfall.
PDL Definition	The Principal Deficiency Ledger records any losses on the assets and the application of any principal to meet any potential interest shortfalls.

Expected Loss:

The expected loss of [3.0]% for this transaction (based on a £150 million pool including £29.1 million pre-funding) was obtained by benchmarking it with other securitisations of buy-to-let mortgages originated by UK mortgage originators and taking into account the high borrower concentration and the buy-to-let nature of the mortgages. In particular, Moody's assumed that the top 20 borrowers would not comprise more than [11.3]% of the £150 million pool as per prefunding conditions.

Modelling Approach:

Loss Distribution: The first step in the analysis is to determine a loss distribution of the pool of mortgages to be securitised. Due to the large number of loans and supporting historical data, Moody's uses a continuous distribution to approximate the loss distribution: the lognormal distribution.

In order to determine the shape of the curve, two parameters are needed: the expected loss and the volatility around this expected loss. These parameters are derived from two important sources: historical loss data and the loan-by-loan model.

Moody's uses performance data provided by the originator in addition to other relevant data in order to extrapolate expected losses for the loan pool. Examples of data include market and sector wide performance data, the performance of other securitisations, and other originators' data.

To obtain the volatility under "stressed" scenarios, Moody's takes into account historical data. However observed historical volatility may not be significant (given insufficient data points, or incomplete data), and in addition may not be representative for the future as it is based on the previous economic environments experienced.

Consequently, Moody's determines a number representing the enhancement that would be required for a pool of mortgages to obtain a rating consistent with Aaa under highly stressed conditions. This enhancement number (the "MILAN Aaa CE" number) is produced by using a loan-by-loan model, which looks at each loan in the pool individually and based on its individual characteristics such as LTV or other identified drivers of risk, will produce a benchmark CE number. This assumes stressed recovery rates (through house price decline), time to recovery, interest rates and costs to foreclosure. The weighted-average benchmark CE number will then be adjusted according to positive and negative characteristics of each loan or of the pool as a whole to produce the MILAN Aaa CE number.

Modelling assumption: The MILAN Aaa CE number and the expected loss number form the basis of Rating Committee discussions and are used to derive the lognormal distribution of the pool losses

The standard deviation of the distribution is found by setting the expected loss of the area of the lognormal distribution beyond the MILAN Aaa CE equal to the expected loss that is consistent with the idealised expected loss of a Aaa tranche.

Tranching of the Notes: Once the loss distribution of the pool under consideration has been computed, a cash flow model is used to assess the impact of structural features of the transaction. It calculates the average lives and the losses experienced by the notes for every loss scenario for the portfolio. Based on these numbers, the expected loss and the weighted-average lives for the notes are calculated as weighted averages based on the probabilities of the respective scenarios. The expected loss on each tranche together with the notes' weighted-average life determines the rating, which is consistent with Moody's target losses for each rating category.

The rating of the notes is therefore based on an analysis of:

- The characteristics of the mortgage pool backing the notes
- The relative roll-rate levels and arrears in this type of lending compared to conventional lending
- Sector-wide and originator specific performance data
- Protection provided by credit enhancement and liquidity support against defaults and arrears in the mortgage pool
- The roles of the swap and hedging provider
- The legal and structural integrity of the issue

Treatment of Concerns:

- **Borrower concentration**

  It is expected that there will only be around 725 borrowers in the final pool of around £[150]m with 557 borrowers in the provisional pool. Moreover most of the borrowers are professional property investors with loans originated in a narrow timeframe and so during a housing market downturn Moody's expects the payment performance of different borrowers to be strongly correlated.

  Moody's has factored this into the MILAN analysis with the MILAN Aaa CE number of [20.5]% including a overall [9.5]% adjustment for borrower concentration. The [9.5]% borrower concentration stress is composed of a base adjustment of [4.8]% per Moody's standard MILAN methodology and a further [4.7]% additional adjustment due to the pool being significantly more concentrated than one with 5,000 equally sized borrowers as in Moody's standard methodology.

  Additionally Moody's has increased the expected loss compared with existing deals to take into account borrower concentration. The existing Paragon deals have an expected loss of between 1.25% and 1.75% whereas the expected loss is [3.0]% for the current deal. This is despite the fact that the maximum indexed LTV is [75]%, compared with existing Paragon deals where there are significant portions of the pools in negative equity.

  Should the prefunding not take place the pool will become more concentrated but in mitigation the amounts which had been allocated for prefunding will instead be used to pay down the notes. Moody's has performed scenario analysis to ensure that the ratings would not be impacted in such a scenario.

- **Operational Risk**:

Paragon is not rated and is the originator, servicer and cash bond manager in the transaction. In mitigation, the deal is in line with Moody's new guidelines on operational risk as there is a warm back-up servicer, a back-up servicer facilitator and a warm back-up cash bond manager in place at closing. It should be noted however that Homeloan Management Limited, who acts as both back-up servicer and back-up cash bond manager, have the right to resign from their functions upon giving written notice. The resignation would become effective on the earlier of (i) 6 months following notification provided that a substitute back-up servicer and back-up cash manager has been found and (ii) 12 months following the notification. In the latter case, if no replacement was found, the transaction would be left without any back-up servicer, therefore causing the deal to be no longer in line with Moody's operational risk guidelines. Ultimately, this could lead to a multi-notch downgrade of the rating of the notes, although this is a remote scenario given the presence of a back-up servicer facilitator. Moody's believes that the role of facilitator to find a suitable third party during this 12 month period, and the additional liquidity available from the Reserve Fund mitigate this risk.

If the servicer fails to provide the calculation report for the cash management within three business days of determination date (which falls 15 days prior to the IPD) then the substitute administrator must immediately assume the performance of the calculation and payment services.

The back-up servicer facilitator would assist the issuer in appointing a replacement cash bond manager to perform the cash bond administration services if the substitute cash bond manager fails to assume the performance of the calculation and payment services within five business days of the servicer failing to deliver a servicer report.

The back-up servicer has undertaken a mapping exercise such that the back-up servicing arrangement will be warm at close.

In the event that the back-up servicer either becomes the primary servicer or is no longer able to fulfil the role of back up servicer, the back-up servicer facilitator is responsible for finding a replacement back-up servicer.

To mitigate against the increased operational risk there is five months of liquidity to pay the senior fees and debt servicing costs on the rated notes assuming Libor of 5.7%.

Due to the presence of netting within the fixed – floating swap agreement there will be cash available to pay the issuer's side of the swap agreements in line with the rating assigned.

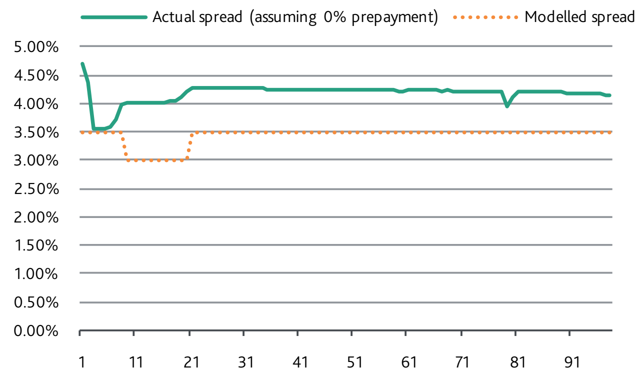
To ensure continuity of payments both the terms and conditions of the notes and the swap documents contain estimation language whereby the cashflows will be estimated from the three most recent servicer reports should a current servicer report not be available.

However, should no servicing report be available and amounts in the principal and revenue waterfalls require to be estimated then it is possible that cash is will leak out of the transaction.

Absence of SVR swap and minimum margin requirement risk

Although there is a commitment that the servicer should set the SVR rate such that the asset yield will be [4]% above Libor pre [October 2016] and [4.5]% above Libor after this date, Moody's is of the view that this will not be enforceable in all circumstances as it could be deemed unfair as the borrowers do not have power to renegotiate terms and there is no mention of proportionality. Moody's has stressed the yield as shown in the chart below. A lower haircut has been applied in the first two years due to the presence of Libor linked loans and the swap which is in place for the fixed rate loans.

CHART 13
Actual spread versus Moody's stressed spread



Source: Moody's Investors Service

Prefunding:

Subject to certain conditions the structure allows additional loans to be added in the six months following close. Prefunding in the deal will equal [19.4]% of the principal amount of the notes to be issued. The risk of asset deterioration and increased borrower concentration is mitigated by criteria governing the addition of new mortgages. These include:

» Moody's rating agency confirmation;

» Average loan to value of the overall portfolio does not exceed [70.5]%;

» Weighted average interest coverage ratio determined in accordance with lending criteria guidelines) does not fall below 152%;

» Top 20 borrowers does not exceed £[16,856,390] (equivalent to value in provisional pool);

» All new loans are to unique borrowers;

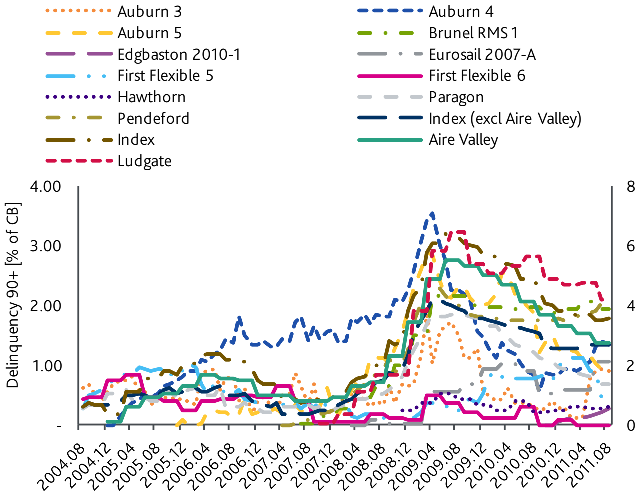
» An additional AUP is carried out; and

» No enforcement notice

Benchmark Analysis

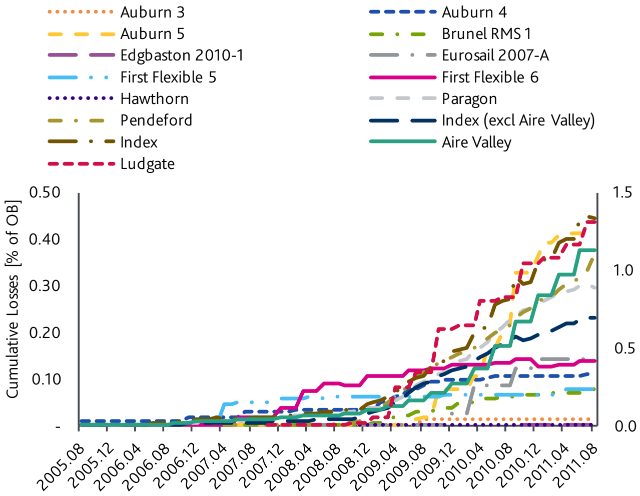
UK Buy-to-let sector Performance: In Moody's view, the historical performance of 90+ delinquencies and losses of Paragon transactions compares positively to other recent transactions in this sector. Please see below Moody's BTL index:

CHART 14
90+Delinquencies



Source: Moody's Investors Service, Moody's Performance Data Service, periodic investor/servicer reports

CHART 15
Loss trends



Source: Moody's Investors Service, Moody's Performance Data Service, periodic investor/servicer reports

Benchmark Table*

Deal Name	Paragon mortgages (No. 16) PLC	Paragon mortgages (No. 15) PLC	Paragon mortgages (No. 14) PLC	Edgbaston RMBS 2010-1 PLC	Aire valley 2008-1
	Provisional Pool				
Closing date	[November 2011]	Jul-07	Mar-07	Aug-10	Jul-08
Information from	Provisional data provided by Paragon to Moody's	Data provided by Paragon to Moody's	Data provided by Paragon to Moody's	Data provided by BoS to Moody's	Data provided by B&B to Moody's
Originator	Paragon	Paragon	Paragon	BoS (under the Birmingham Midshires brand)	Bradford & Bingley
Servicer	Moorgate Asset Administration Ltd	Paragon Finance Plc	Paragon Finance Plc	BoS	Bradford & Bingley
MILAN Aaa CE	[20.5]%	17.00%-17.40%	16.80%-17.20%	20%	17.3%(at closing)
Expected Loss	[3.0]%	0.90%-1.10%	0.90%-1.10%	2.50%	1.2%(at closing)
Portfolio Stratification					
Avg. Current LTV	[69.64]%	79.34%	79.13%	73.40%	80.90%
% Current LTV > 70%	[63.24]%	86.03%	86.47%	74.50%	Not disclosed
% Current LTV > 80%	0.00%	64.93%	64.29%	17.40%	Not disclosed
% Current LTV > 90%	0.00%	1.50%	3.15%	0.20%	Not disclosed
Avg. Current LTV indexed	[69.40]%	77.56%	78.43%	72.20%	68.80%
% Self Employed	[62.26]%	59.31%	57.37%	No data	Not disclosed
% Self Certified	0.00%	0.00%	0.00%	0.00%	22.50%
% Non-owner Occupied (Includes: Partial Owner)	100%	100%	100%	100%	76.60%
% IO without collateral	[90.13]% (including [50.1]% that reverts to repayment in 5 years)	96.16%	95.48%	91.80%	72.10%
% Fixed interest	[36.04]%	78.71%	68.99%	48.10%	78.00%
Max regional concentration	London (30.11%)	South East (27.55%)	South East	Southeast (25%)	London and Southeast (54.1%)
% CCJs	0.00%	0.00%	0.00%	0.00%	4.50%
% IVA / Bankruptcy	0.00%	0.00%	0.00%	0.00%	1.90%
% in arrears at closing	[0.49]%	1.11%	0.15%	0.48%	10.90%
Portfolio Data					
Current Balance	£[120,873,987]	812,445,390	1,158,029,367	£3,879,203,050	£13,116,169,508
Average Loan (Borrower)	[217,009]	161,360	189,754	£ 126,540	£126,062
Borrower top 20 (as % of pool bal)	[13.95]%	3.29%	4.04%	0.77%	Not disclosed
WA interest rate	[4.70]%	5.38%	5.22%	4.20%	Not disclosed
Stabilised margin*				2.60%	Not disclosed
Average seasoning in years	[0.39]	0.13	0.21	1.49	3.1
Average time to maturity in years	[19.98]	21.06	21.37	16.9	19
Maximum maturity date	Oct-36	Jul-37	Jan-37	May-49	Not disclosed
Average House Price stress rate**	[48.72]%	48.74%	48.73%	48.24%	Not disclosed
Average House Price change	[0.35]%	-0.18%	-0.10%	1.69%	Not disclosed

Structural Features					
Notes Payment Frequency	Quarterly	Monthly for the A1 Notes and Quarterly for all other notes	Monthly for the A1 Notes and Quarterly for all other notes	Monthly	Quarterly
Replenishment periods	0	0	0	0	Ongoing
Total Aaa size	[80.4]%	85%	85%	81.00%	87.50%
RF at Closing§	[3]%	1.90%	1.90%	1.00%	3.56%
RF Fully Funded at Closing?§	Yes	Yes	Yes	Yes	No, build up to 3.76%
RF Floor§	N/A	N/A	N/A	N/A	N/A
Hedge in place	Fixed-floating swap	Yes	Yes	Yes	Yes
Swap rate or guaranteed XS (if applicable)	N/A	N/A	N/A	N/A	N/A
Principal to pay interest?	Yes	Yes	Yes	Yes	Yes

* As per Moody's calculation

* Margin after all loans reset.

** As per Moody's MILAN methodology for Aaa scenario for a benchmark loan.

§ Of original note balance.

Parameter Sensitivities

Parameter Sensitivities provide a quantitative, model-indicated calculation of the number of notches that a Moody's-rated structured finance security may vary if certain input parameters used in the initial rating process differed. The analysis assumes that the deal has not aged. It is not intended to measure how the rating of the security might migrate over time, but rather, how the initial rating of the security might differ as certain key parameters vary. For more information on V Score and Parameter sensitivity methodology for RMBS, please refer to "V Scores and Parameter Sensitivities in the Major EMEA RMBS Sectors" published in April 2009.

Parameter sensitivities for this transaction were calculated in the following manner: Moody's assumed 16 loss distributions derived from the combinations of MILAN Aaa Credit Enhancement: 20.5% (base case), 24.6% (base x 1.2), 28.7% (base x 1.4) and 32.8% (base x 1.6) and expected loss: 3.0% (base case), 4.5% (base x 1.5), 6.0% (base x 2) and 9.0% (base x 3). The 3.0% / 20.5% scenario would represent the base case assumptions used in the initial rating process.

The tables below show the parameter sensitivities for this transaction with respect to all Moody's rated tranches.

TABLE 2*:
Tranche A

		MILAN Aaa CE Output			
		20.5%	24.6%	28.7%	32.8%
Median Expected Loss	3.0%	Aaa*	Aa1(1)	Aa1(1)	Aa1(1)
	4.5%	Aaa(0)	Aa1(1)	Aa1(1)	Aa2(2)
	6.0%	Aaa(0)	Aa1(1)	Aa2(2)	Aa3(3)
	9.0%	Aaa(0)	Aa1(1)	Aa3(3)	A1(4)

* Results under base case assumptions indicated by asterisk ' * '. Change in model-indicated rating (# of notches) is noted in parentheses.

Worse case scenarios: At the time the rating was assigned, the model output indicated that although Class A notes would still achieve a Aaa rating if expected loss was as high as [9]%, there is greater sensitivity to increases in the MILAN Aaa CE. If the MILAN increased to [24.6]% and all other factors remained the same, the model output indicates Aa1.

Monitoring

Moody's will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

Originator Linkage: Paragon acts as originator, seller and cash manager. However it is in line with Moody's recently published criteria on operational risk which delinks the transaction from Paragon's credit risk.

Significant Influences: In addition to the counterparty issues noted, further deterioration in the housing market beyond that modelled may have an impact on the subject transaction's ratings.

Counterparty Rating Triggers	Condition	Remedies
Interest Rate Swap Counterparty	In accordance with Moody's swap guidelines*	
Issuer Account Bank	Loss of P-1	Replace
Collection Account Bank	Loss of P-1	Replace
Liquidity Facility Provider	Loss of P1	Replace
Other		

* See Framework for De-Linking Hedge Counterparty Risks from Global Structured Finance Transactions Moody's Methodology, October 18, 2010.

Loan repurchase following breach of representations and warranties (R&W):

» If material breaches of R&W have not been remedied within [28] days of being notified by the Issuer of such breaches, the Seller shall repurchase the loan from the Issuer.

Monitoring Report:

Data Quality:

» Investor report format is currently being finalised.

» The report is in line with previous Paragon deals and is in line with other transactions in the sector.

» Undertaking to periodically provide Moody's with updated pool cut once a quarter.

» Loan modifications for arrears management is not reported separately.

» Further advances are reported in the investor reports.

Data Availability:

» Report provided by: Moorgate Asset Administration Limited

» The timeline for investor report is provided in the transaction documentation, The priority of payment section is published on the IPD.

» The investor report is expected to be completed no later than 30 days following the end of the relevant collection period.

» The frequency of the publication of the investor report is quarterly] and the frequency of the IPD is quarterly.

» Investor reports are publicly available on a website.

Representations and Warranties

The Rule 17g-7 Report of Representations and Warranties is hereby incorporated by reference and can be found at http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF262675.

Moody's Related Research

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

Methodologies Used:

Principal methodology used:

» Moody's Approach to Rating RMBS in Europe, Middle East and Africa, October 2009 (SF141262)

Secondary methodologies used:

» Moody's Approach to Rating UK RMBS, April 2005 (SF47735)

» Moody's Updated Methodology for Rating UK RMBS, Sept 2009 (SF112854)

» Cash Flow Analysis in EMEA RMBS: Testing Features with the MARCO Model (Moody's Analyser of Residential Cash Flows), January 2006 (SF58290)

» Interest Rate Risk in UK RMBS – Moody's Approach, October 2007 (SF110489)

» Moody's Approach to Automated Valuation Models in Rating UK RMBS, August 2008 (SF121128)

» A Framework for Stressing House Prices in RMBS Transactions in EMEA, July 2008 (SF131751)

» V Scores and Parameter Sensitivities in the Major EMEA RMBS Subsectors, April 2009 (SF158654)

Originator Research:

» Outlook for UK Mortgage Lenders – Key Credit Themes in 2010 and Beyond, July 2010 (124977)

Special Reports:

» What drives UK Mortgage Loans to Default, August 2009 (SF171259)

» Performance of UK Residential Mortgages Originated in 1985 – 2003, March 2006 (SF65684)

» What Drives Severity of Losses on UK Mortgages, April 2010 (SF192584)

» Investor/Servicer Reports: Important Considerations for Moody's Surveillance of EMEA ABS and RMBS Transactions, June 2009 (SF154502)

» Global Structured Finance Operational Risk Guidelines: Moody's Approach to Analyzing Performance Disruption Risk, June 2011 (SF243145)

Other:

» UK Buy-To-Let RMBS Indices, August 2011 (SF255773)

» Credit Insight, October 2011 (SF264768)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Appendix 1: Summary of Originator's Underwriting Policies and Procedures

Originator Ability	At closing
Sales and Marketing Practices	
Origination channels:	90% brokers, 10% direct customer enquiries
Role of the intermediaries/brokers:	The intermediary acts as the applicants adviser and submits application information only. Any validation is carried out by Paragon.
Frequency of intermediaries/brokers monitoring:	Brokers are subject to initial due diligence and monitoring of performance is ongoing.
Compensation/ incentive structure of sales team (brokers/intermediaries and branches):	Intermediaries are paid a procuration fee for introducing an application typically between 0.5% and 0.75% of the loan on completion. Paragon regional managers are compensated with a mix of basic salary and bonus. The bonus will typically equate to 25% of basic salary.
Separation and independence of sales and approval function:	Sales and underwriting operate independently and report through separate directors. Sales have no mandate.
Underwriting Policies and Procedures	
% of loans automatically underwritten (i.e without manual approval):	0% - All loans are written based upon manual approval. The system based underwriting system is designed to filter applications and assist the underwriter, not replace them.
% of loans manually underwritten:	100%
Back-testing of automatic underwriting/internal score (if applicable):	Both manual and credit score assisted processes are reviewed on an ongoing basis and credit reports produced monthly to the Group Credit Committee.
Average experience in underwriting or tenure with company:	14% 0-5 years , 21% 5-10 and 64% with 10+ years experience / tenure (please delete what is not relevant)
Ratio of loans underwritten per FTE[1] per day:	Within a range 2-4.7 (depending on complexity]/day
Criteria for compensation of underwriters:	Underwriters are compensated on basic salary only (no performance related bonus) and also participate in a Group wider profit related pay scheme which pays an annual sum based on a distribution of 1% of the Group's gross profit. The average over the last 5 years per employee was:£1406
Approval rate:	The approval rate is circa 40%
Mandate/lending authority for first level underwriter/personnel:	£200k 75%LTV% - is the lowest level mandate authority.
Percentage of exceptions to underwriting policies:	There are no exceptions to underwriting policy
Process and tools for the borrower identity check:	The solicitor acting for Paragon is required to complete identity checks in line with UK anti-money laundering regulation. In addition - data supplied by the credit reference agencies is used to check for M/L compliance.
Fraud prevention tools and % of applicants checked for fraud:	100% All cases are checked against Sira & Cifas databases.
Source of credit history checks:	Equifax and Credit safe are used as suppliers of consumer and commercial credit data within the underwriting process. All personal applicants and all corporate applicants are searched using these systems.
Credit history requirements:	No material adverse credit
Use of external credit bureau scores:	Personal Applicant -Equifax - Risk Navigator score - 320. Corporate applicants - Credit Safe - 30
Use of internal credit scores:	None
Methods used to assess borrowers' repayment capabilities:	All mortgages are BTL. A minimum interest coverage ratio is used to assess affordability. The monthly rental payment at inception should be no less than 125% of the mortgage payment.
Income taken into account in affordability calculations:	Other income information is collected and may be validated in the underwriting process but is not relied upon in the affordability assessment
Other borrower's exposures (i.e. other debts) t taken into account in affordability calculations:	Information on other debts and liabilities is collected and recorded and may be taken into account but the affordability assessment is driven by the property information.
Is interest rate stressed to calculate affordability?	The interest coverage ratio is set at a minimum of 25% above the mortgage payment
Is amortisation modified to calculate affordability for I/O/balloon loans?	No
Method used for income verification	Rental income is assessed by the Group's surveyor
Criteria for non income verified and %:	not applicable
Maximum age at maturity &assessment of income for pensioners:	not applicable
Maximum loan size:	£5m (in aggregate)
Valuation types used for purchase & LTV limits:	Full physical inspection 75%
Valuation types used for remortgage & LTV limits:	Full physical inspection 75%
Valuation types used for further advances & LTV limits:	Full physical inspection 75%
Valuation types & procedure for construction loans & LTV limits:	Not applicable

Originator Ability	At closing
Valuation types & procedure for new built properties & LTV limits:	Full physical inspection 75%
LTV limit for first-time-buyers/Buy-to-let/other (please specify and delete non relevant criteria):	Maximum loan to value 75%, please see full product information and lending criteria on the Paragon website
Collateral Valuation Policies and Procedures	
Value in the LTV calculation for underwriting purpose:	Lower of the purchase price or valuation
Value in the LTV recorded in database system if different than above	Lower of the purchase price and valuation (separately the purchase price)
Type, qualification and appointment of valuers:	Internal Surveyors Team (all RICS qualified 15yrs post qualified experience). Where necessary we will instruct a panel surveyor (all RICS qualified) but these will be subject to a 100% audit by the internal surveyors function.
Monitoring of quality of valuers:	All valuations subject to a regular random audit conducted by senior audit surveyor.
Closing Policies and Procedures	
Quality check before releasing funds:	[Letter/phone] calls to confirm borrower information, validation that insurance is in place, check with notary, etc.
Entity responsible for the deed registration & time needed:	The solicitor acting for Paragon will register the charge in accordance with Paragon's instructions to solicitors
Data quality check (check that system and paper file match):	100%, via Image system
Credit Risk Management	
Credit risk team employees and experience:	Credit risk team runs with two senior, experienced staff and 4 analysts. Director of team has 24 years with Paragon, Head of Dept has 8 years with Paragon (20 years in total in credit risk industry). 1 new analyst with remaining having a minimum of 5 years experience.
Reporting line of Chief Risk Officer :	Finance Director
Ability to track loan performance by specific loan characteristics?:	Yes, performance can be tracked by any characteristic recorded on our system. Eg originator, valuer, solicitor, loan size, score etc.

* FTE: Full Time Equivalent

Originator Stability:	At closing
Quality Controls and Audits	
Responsibility of quality assurance:	Independent team (part of team of 4)under the control of a team leader (separate to the underwriting area)
Number of files per month being monitored:	100% audit post offer and post completion with findings passed back to underwriting team leader on a monthly basis.
Recording of quality assurance findings and analysis of causes:	Yes and Yes
Frequency of operational audits for the underwriting processes:	Annually
Management Strength and Staff Quality	
Average turnover of underwriters:	20%
Training of new hires and existing staff:	Buddy principle - mixing training with 4 eye review (finally hierarchical mandate approval process). Then ongoing review for quality.
Technology	
Main software used:	ARIES is the core component of the Paragon First Mortgage systems that support all phases of flexible, repayment, endowment, rest or interest only mortgage operations, from initial application processing through servicing, accounting and collections. There are interfaces to the general ledger accounting System 21 and to various administrative systems used by finance and treasury operations. The software schedule is operated through ROBOT. A monthly process known as the collection run calculates the monthly interest owed by the customer, generates insurance premiums and creates an extract file of customer payments to be submitted to BACS. Overnight, weekly and monthly process produces reports and statistical information on redemptions, mortgage arrears and insurance premiums.
Tools/infrastructure available:	See below.
Back-up server synchronisation and distance from main server:	Paragon uses two IBM iSeries (formerly known as AS/400) computers to operate all its product application, account administration and general ledger systems. The iSeries used for front line production is known as LEOPARD and is a RISC processor series 550 with 24Gb memory and 1.8Tb RAID disk. This server is located in the primary computer room in St Catherines Court (3.4 miles from the administration operations campus).
Frequency of disaster recovery plan test:	Paragon are BS25999 certified. BCP tests are conducted frequently. The last DR test was 24 August 2010.

Originator Stability:	At closing
Securitisation related	
%age of book securitised	As at September 10, the securitised assets, as a percentage of the buy to let assets, was approximately 82%.
Previous experience with buy backs from securitisations	There have been no repurchases this year. Historically, there has been one repurchase where the solicitor failed to register Paragon's charge.

Appendix 2: Summary of Servicer's Collection Procedures

Servicer Ability	At closing
Loan Administration	
Entities involved in loan administration:	None
Abandonment rate (% call not answered within 20 seconds):	<3%
Early Arrears Management	
Entities involved in early stage arrears:	Internal Collections team
Hours & days of operation:	Mon to Fri 8am to 8pm. Sat 8am to 5pm
Ratio of loans per collector (FTE)[1]:	Approx 350
Definition of arrears & default	Any amount missed
Pre-arrears strategy: Do you contact the borrower to remind that the payment prior to account is due?	Yes
Pre-arrears strategy: If yes, how do you select the account to be called,	Behavioural analysis and proactive arrangement contact
Arrears strategy for 1-29 days delinquent (please select and if needed customise the relevant option)	From Day 1 - letter sent & collection calls (3 per day), supported with Field Calls and daily attempts at contact
Arrears strategy for 30 to 59 days delinquent (please select and if needed customise the relevant option)	From Day 30 - as above
Arrears strategy for 60 to 89 days delinquent (please select and if needed customise the relevant option)	From Day 60-90 Receiver-of-Rent appointed
Arrears strategy for 90 days or more delinquent to late stage (please select and if needed customise the relevant option)	Receiver-of-Rent appointed
Prioritisation rules for delinquent accounts:	Level of arrears, type of portfolio, payment type missed
Use of historical payment behaviour in the collection strategy:	Aged history used showing arrears now, previous month and previous year
Data enhancement if borrower is not contactable:	Field calls, directory enquiries, bank letters and trace companies
Reason for non-payment:	Arrears reason code data collected
Loss Mitigation and Asset Management Practices:	
Transfer of a loan to the late stage arrears team:	Receiver-of-Rent from Day 60 and Pre-Salvage where forecast loss at Day 60
Entities involved in late stage arrears:	Collections, Portfolio Relationship, Receiver, Field Team
Entities involved in loss mitigation	Portfolio Relationship, Pre-Salvage, Receiver, Litigation, Negligence review, external solcitors
Hours & days of operation:	Same as collections
Ratio of loans per collector (FTE):	Included in previous figure for collections
Analysis performed to assess/propose loss mitigation solutions:	Review including LTV, interest due vs. interest paid, pre-salvage review, information from PRM visits and negligence review
Types of loss mitigation solutions including percentage defined as the number of accounts which were 30+ delinquent for which one solution has been applied divided by the total number of accounts which were 30+ delinquent over the past 12 months.	N/a
Role of field agents:	Supporting Receiver-of-Rent in tenant contact and property management
Borrowers re-defaulting 90 days or more after loss mitigation:	N/a
Contact with borrower during the legal process:	N/a

Servicer Ability	At closing
Time from first default to litigation and from litigation to sale:	N/a
Average recovery rate on closed files, recovery time and change in price of properties sold:	N/a

Servicer Stability	
Management and Staff	
Average experience in servicing or tenure with company:	Management 18 yrs, Collections staff 14 yrs and Customer Service staff 7 yrs
Yearly turnover rate:	1% in 12 months
Criteria for compensation/reward:	Basic salary and part incentive for collections staff
Training of new hires specific to the servicing function (i.e. excluding the company induction training):	Personalised training plan
Training for existing servicing staff:	Regular training including 2 sessions per wk
Quality control and audit	
Responsibility of quality assurance:	Collection Managers
Number of files (and calls) per agent per month being monitored:	A random daily audit is undertaken by the Collection Managers in respect of Mandate, DPA PSA (problem, Solution Action)and the timing in respect of actioning certain accounts
Recording of quality assurance findings and analysis of causes:	Please see above
Frequency of operational audits for the servicing processes:	Yes - Please see above
Operating manual available to servicing staff:	Yes, this is available on a Lotus Notes Database
IT and Reporting	
Main software used and its operating manual:	ARIES is the core component of the Paragon First Mortgage systems that support all phases of flexible, repayment, endowment, rest or interest only mortgage operations, from initial application processing through servicing, accounting and collections. There are interfaces to the general ledger accounting System 21 and to various administrative systems used by finance and treasury operations. The software schedule is operated through ROBOT. A monthly process known as the collection run calculates the monthly interest owed by the customer, generates insurance premiums and creates an extract file of customer payments to be submitted to BACS. Overnight, weekly and monthly process produces reports and statistical information on redemptions, mortgage arrears and insurance premiums.
Tools/infrastructure available:	Please see above
Automatic tracking and reporting of specific characteristics:	Generic Event management System (GEMS)
Back-up server synchronisation and distance from main server:	Paragon uses two IBM iSeries (formerly known as AS/400) computers to operate all its product application, account administration and general ledger systems. The iSeries used for front line production is known as LEOPARD and is a RISC processor series 520 with 8Gb memory and 1Tb RAID disk. This server is located in the primary computer room in St Catherines Court (3.4 miles from the administration operations campus).
Frequency of disaster recovery plan test:	Paragon are BS25999 certified. BCP tests are conducted frequently. The last DR test was 24 August 2010.
Main software used and its operating manual:	ARIES is the core component of the Paragon First Mortgage systems that support all phases of flexible, repayment, endowment, rest or interest only mortgage operations, from initial application processing through servicing, accounting and collections. There are interfaces to the general ledger accounting System 21 and to various administrative systems used by finance and treasury operations. The software schedule is operated through ROBOT. A monthly process known as the collection run calculates the monthly interest owed by the customer, generates insurance premiums and creates an extract file of customer payments to be submitted to BACS. Overnight, weekly and monthly process produces reports and statistical information on redemptions, mortgage arrears and insurance premiums.
Tools/infrastructure available:	Please see above
Automatic tracking and reporting of specific characteristics:	Generic Event management System (GEMS)
Securitisation related	
Securitised loans in the servicers portfolio	All of the buy to let assets (£8.3bn)as at Sept 10, with the exception of the mortgages in the PSFL Warehouse Facility (£1.4bn), have been securitised into public deals.
Are defaulted loans in the securitisations checked for breach of representations and warranties?	Some cases are referred to the Securitisation Compliance area

» contacts continued from page 1

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