

Profile

Expected closing date:
April 2001.

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

Originator:
Paragon Mortgages Ltd.

Security and note trustee:
Citicorp Trustee Co. Ltd.

Swap counterparty:
Morgan Guaranty Trust Co. of New York.

Supporting ratings:
Morgan Guaranty Trust Co. of New York (AA/Stable/A-1+) and National Westminster Bank PLC (AA-/Stable/A-1+).

Underwriter:
Barclays Bank PLC.

Analysts:
James Cuby
London
(44) 20-7826-3625
james_cuby
@standardandpoors.com

Brian Kane
London
(44) 20-7826-3530

brian_kane
@standardandpoors.com

Paragon Mortgages (No. 3) PLC

£340 million mortgage-backed floating-rate notes

Preliminary ratings as of April 6, 2001

Class	Preliminary rating*	Preliminary amount (Mil. £)	Recommended credit support (%)
Class A mortgage-backed floating rate notes due 2031	AAA	306	TBD
Class B mortgage-backed floating rate notes due 2043	A	34	TBD

*The rating of each class of securities is preliminary and subject to change at any time.
TBD—to be determined.

Rationale

A preliminary rating of 'AAA' has been assigned to the £306 million class A mortgage-backed floating-rate notes and a preliminary rating of 'AA' has been assigned to the £34 million class B mortgage-backed floating-rate notes to be issued by Paragon Mortgages (No. 3) PLC. The ratings reflect the ability of the servicer to perform its roles in this transaction, the sound legal structure of the transaction, and the sound payment structure and 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 (10.0% of the notes issued), the first-loss fund (2.0% of the notes issued), and excess spread to cover credit losses and income shortfalls; and the strong protection for class B 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 satisfactory review of all documentation and legal opinions.

Main Transaction Parties

Paragon Mortgages (No. 3) PLC (Issuer)

The issuer is a public company incorporated under the laws of England 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 issuing the notes, purchasing the issuer mortgages, and making term loan advances under the Luxembourg loan agreement (see below).

Paragon Mortgages (No. 4) S.A.

Paragon Mortgages (No. 4) was incorporated as an SPE in Luxembourg on Dec. 22, 2000. It is a subsidiary of The Paragon Group and on the closing date will acquire the beneficial interest in mortgages from Paragon Mortgages Ltd. and will enter into a loan agreement (called the Luxembourg loan agreement) with the issuer.

The issuer and Paragon Mortgages (No. 4) are bankruptcy-remote SPEs that conform to Standard & Poor's SPE requirements.

**Paragon Mortgages
(No. 3) PLC**
£340 million mortgage-backed
floating-rate notes

Paragon Mortgages Ltd. (Originator)

Paragon Mortgages Ltd. is a private company incorporated in England and is the originator of the mortgages in the portfolio, either directly or indirectly via broker intermediaries.

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.

Morgan Guaranty Trust Co. of New York (Interest Rate Swap Counterparty)

The issuer will enter into the interest rate swap agreement with Morgan Guaranty Trust Co. to protect the issuer and noteholders from variations between the interest rate received on the mortgages and the interest rate due on the notes.

The issuer will only be required to pay any swap breakage costs owed to the swap counterparty at a level subordinated to payments of class B payments in the priority of payments but will be allowed to retain the benefit of any swap breakage income in its favor. The mechanism functions similar to the benefit of an interest rate cap in the issuer's favor.

Collateralised Mortgage Securities (No. 5) PLC

Collateralised Mortgage Securities (No. 5) 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. Step-down of the first-loss fund will be permitted after five years from the closing date, subject to the balance of the fund being no less than [4]% of outstanding notes, with a floor equal to the greater of [£500,000 and twice the principal amount of the largest remaining mortgage loan].

Paragon Finance PLC (Administrator)

As administrator, Paragon Finance PLC will be responsible for the day-to-day administration and ongoing servicing of the underlying portfolio of mortgages. Paragon Finance PLC 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 Mortgages Ltd.'s origination, underwriting, and valuation processes and of Paragon Finance PLC's (as administrator) collection and default management procedures 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 PLC is deemed capable of performing the functions necessary to ensure the collection of borrower payments and management of the arrears and repossession cases.

National Westminster Bank PLC (Transaction Account Provider)

National Westminster Bank PLC will provide the transaction account for this transaction. All payments from borrowers will be paid into a collection account, which is also held with National Westminster Bank, and then transferred to the transaction account.

Transaction Structure

At closing, and in accordance with the terms of a mortgage sale agreement, the issuer will acquire from Paragon Mortgages Ltd. the beneficial interest in certain mortgages (issuer mortgages), originated by Paragon Mortgages Ltd., which will form part of the security for the notes. The borrowers in respect of the issuer mortgages are individuals.

At closing, Paragon Mortgages (No. 4) will acquire the beneficial interest in a pool of mortgages originated by Paragon Mortgages Ltd. The borrowers in respect of these mortgages are limited liability companies incorporated in England, Wales, and Scotland. Paragon Mortgages (No. 4) will fund the purchase of the mortgages from the proceeds of a loan from the issuer, which will be funded contemporaneously from part

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: Garden House, 18 Finsbury Circus, London EC2M 7NJ. Subscriber services: (44) 20-7826-3510. Copyright 2001 by The McGraw-Hill Companies, Inc. Reproduction in whole or in part prohibited except by permission. All rights reserved. Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw, III, Chairman, President, and Chief Executive Officer; Kenneth M. Vittor, Executive Vice President and General Counsel; Robert J. Bahash, Executive Vice President and Chief Financial Officer; Frank Penglase, Senior Vice President, Treasury Operations. Information has been obtained by Standard & Poor's from sources believed to be reliable. However, because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or the result obtained from the use of such information.

Standard & Poor's receives compensation for rating obligations. Such compensation is based on the time and effort to determine the rating and is normally paid either by the issuers of such securities or by the underwriters participating in the distribution thereof. The fees generally vary from US\$10,000 to US\$100,000. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

About photocopying or faxing: Reproduction or distribution without the consent of the publisher is prohibited. For information on discount bulk rates and fax services, please call (1) 212-438-7280.

Paragon Mortgages (No. 3) PLC

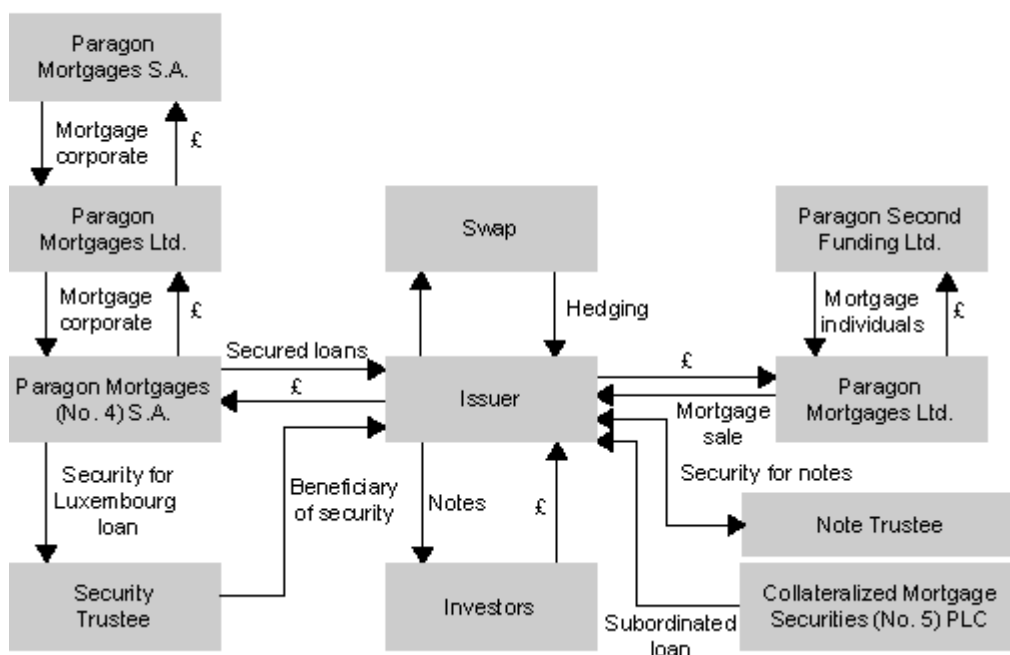
£340 million mortgage-backed floating-rate notes

of the note proceeds. The issuer loan to Paragon Mortgages (No. 4) will be made in accordance with the terms of the Luxembourg loan agreement. The Paragon Mortgages (No. 4) mortgages will form part of the security for the issuer (and ultimately the noteholders) under the terms of the loan agreement.

Part of the note proceeds will be used to establish a prefunding reserve in an amount of approximately £60 million. Until the first principal determination date, the issuer and Paragon Mortgages (No. 4) may use the prefunding reserve to purchase further mortgages from Paragon Mortgages Ltd., subject, among other things, to Standard & Poor's being satisfied that the purchases will not adversely affect the existing ratings on the notes. Any amounts outstanding in the prefunding reserve beyond Aug. 7, 2001 will be applied in redemption of the class A notes.

Both classes of notes will be secured on all the mortgages and repayments to noteholders will derive from the issuer mortgages and also from the mortgages of Paragon Mortgages (No. 4) (see chart below).

Paragon Mortgages (No. 3) PLC Structure



A Finance Bill is expected to be introduced in the House of Commons that will entitle a corporate borrower to make interest payments to its mortgage lender free of U.K. withholding tax as long as the lender is within the charge of U.K. corporation tax.

Before the enactment of this provision, Paragon Mortgages (No. 4) will purchase the mortgages as described above, but it will grant the issuer an option to purchase the Paragon Mortgages (No. 4) mortgages on any interest payment date following the enactment. If the enactment is granted before the closing date then the issuer will purchase all the mortgages from Paragon Mortgages Ltd.

Note Terms and Conditions

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

Interest on each class of notes will be payable at three-month British pound sterling LIBOR plus an annual margin, which is yet to be determined, stepping up after May 2007. Interest on the notes will be payable quarterly in arrears on the 7th of February, May, August, and November each year, commencing on Aug. 7, 2001.

Paragon Mortgages

(No. 3) PLC

£340 million mortgage-backed
floating-rate 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 notes for the first five years from the closing date. Thereafter, while the class A and B notes remain outstanding, redemption will be applied on a pro rata basis, subject to:

- The ratio of the class B notes to the aggregate of outstanding class A and B notes being no less than twice the ratio at closing;
- There being a zero balance on the principal deficiency ledger; and
- The minimum outstanding amount of the class B notes being £16 million while any class A notes remain outstanding.

Optional Redemption

The issuer may redeem all (and not some only) of the notes 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; and
- The aggregate principal amount outstanding of the notes becomes less than 20% of the original principal amount of the notes (including the original principal amount of any further notes issued).

The issuer may also redeem the notes on the interest payment date in May 2004 or at any time thereafter.

Final Redemption

If not already redeemed, the class A and class B notes will be redeemed at their legal final maturities in August 2031 and August 2043, respectively.

Withholding Tax

The issuer will not be required to gross up for any withholding tax that might be imposed on the notes in future.

Collateral Details

Collateral Description

The provisional mortgage pool of £235,104,877.34 comprises 3,832 loans and was drawn up on Feb. 28, 2001. The loans in the provisional portfolio were originated by Paragon Mortgages Ltd. between March 1, 1997 and Feb. 28, 2001 and have been administered by Paragon Finance PLC since origination. Features of the provisional mortgage pool include:

- Each loan is secured by a first legal charge of a residential property in England, Scotland, and Wales;
- Of the total pool, 94.5% are buy-to-let mortgages, with the remainder being owner-occupied;
- Of the total mortgages, 41.67% are repayment mortgages, and 58.33% are interest-only mortgages;
- Of the total loans, 57.07% were used for house purchases and 42.93% were used for remortgaging;
- The weighted-average loan-to-value (LTV) of the mortgage pool is 75.96%;
- The average outstanding mortgage balance is £61,353.05;
- The largest concentration of mortgages by geographic area is in the south-east of England (excluding London) at 30.81%; there are no significant concentrations in other regions;
- The weighted-average term to maturity is approximately 20.39 years.

Standard & Poor's Stress Test

The 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.

Paragon Mortgages

(No. 3) PLC

£340 million mortgage-backed
floating-rate notes

A feature of the portfolio is the high level of different types of buy-to-let mortgages. These include professional, corporate, and amateur lettings. The levels of underwriting by the originator are considered to be conservative, but the characteristics of the buy-to-let market create additional risks relative to a typical prime mortgage portfolio, notwithstanding the weighted-average LTV of this portfolio.

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. Any bank accounts of the issuer are required to be with appropriately rated providers.

Surveillance Details

Continual surveillance will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral will be analyzed, supporting ratings will be monitored, and regular contact will be made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.