STANDARD & POOR'S STRUCTURED FINANCE

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RMBS Presale Report

Paragon Mortgages (No. 4) PLC

£500 million mortgage-backed floating-rate notes

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This presale report is based on information as of March 15, 2002. The ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final ratings that differ from the preliminary ratings. Please call Standard & Poor's at (44) 20-7847-7400 for the final ratings when assigned.

Profile
Expected closing date: March 2002.

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

Underwriter: ING Baring.

Seller: Paragon Mortgages Ltd.

Administrator and servicer: Paragon Finance PLC.

Substitute servicer: Global Home Loans Ltd.

Trustee: Citicorp Trustee Co. Ltd.

Swap counterparty: JPMorganChase Bank.

Transaction account bank: National Westminster Bank (NatWest).

Supporting ratings: JPMorganChase Bank as swap counterparty (AA/Negative/A-1+) and NatWest as transaction account bank (AA-/Stable/A-1+).

Preliminary ratings as of March 15, 2002

Class	Preliminary rating*	Preliminary amount (Mil. £)	Recommended credit support (%)
A	AAA	457.5	10.25
B	A	42.5	1.75

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

Rationale

The preliminary ratings assigned to the £457.5 million class A and £42.5 million class B mortgage-backed floating-rate notes to be issued by Paragon Mortgages (No. 4) PLC reflect the transaction's sound payment structure, the ability of the servicer, Paragon Finance PLC, to perform its role in this transaction, the sound legal structure of the transaction, and 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 (8.50% of the notes issued), the first-loss fund (1.75% 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 a satisfactory review of the transaction documents and legal opinion, and resolution of all outstanding issues.

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Strengths, Concerns, and Mitigating Factors

Strengths

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

- This is a relatively seasoned portfolio with a weighted-average seasoning of 19.6 months. Historical data suggests that mortgages are less likely to go into default if they have been outstanding for a number of years (assuming that these loans have not been in arrears). Standard & Poor's has therefore applied lower default assumptions for these loans (on the basis that they have no arrears experience).
- The average size of the loans in the portfolio is low at £59,000 (considering that almost one-half of the mortgages relate to properties located in the south-east of England). The loans are therefore considered to have a less inherent risk than larger loans, which have increased sensitivity to changes in the borrowers' financial

circumstances.
- The borrowers are high quality, with no adverse credit (i.e., no county court judgments, or CCJs).
- The seller and administrator have an understanding of the buy-to-let market. This experience, coupled with strong underwriting standards, has kept arrears low at below 1%.
- The transaction includes an efficient payment structure for investors that provides support to the A notes when the transaction is under stress through the use of triggers, and support for the B notes when the portfolio is performing. This is possible by allowing the cash reserve to be used to cover coupon payments on the B notes and allowing principal available funds to be used to make pro rata redemption payments under the A and B notes.

Concerns and Mitigating Factors

A concern with respect to the transaction is mandatory further advances. This concern is mitigated by the cap on liability in the provisional pool of £2.8 million (less than 1% of the pool balance). In addition, Standard & Poor's stress tests have confirmed that the mandatory further advances can be funded through available redemption funds.

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Related Parties

Paragon Mortgages (No. 4) PLC (Issuer)

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

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

Paragon 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.

Paragon has established itself as a specialist lender in the buy-to-let product, and both its operations and underwriting standards are robust. Paragon markets its product to two borrower types. The first type comprises amateur borrowers, who will usually have limited property investment experience. Underwriting for these borrowers will primarily be based on affordability with little or no reliance on the property rental income streams.

The other type of borrower is the professional borrower, who will normally have had a reasonable amount of property investment experience. These borrowers would be underwritten based on rental cover, usually set at a minimum of 130% above borrowing costs. More than 80% of Paragon's current loans are made to professional borrowers.

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.

JPMorganChase Bank (Interest Rate Swap Counterparty)

The issuer will enter into the interest rate swap agreement with JPMorganChase Bank to protect the issuer and noteholders from variations between the interest rate received on the fixed-rate mortgages and the interest rate due on the notes.

The issuer will be required to pay any swap breakage costs owed to the swap counterparty only after payments to class B noteholders in the priority of payments but will be allowed to retain the benefit of any swap breakage income in priority to the A notes. The mechanism functions similar to the benefit of an interest rate cap in the issuer's favor (see section on swaps below).

Paragon Finance PLC (Subordinated Loan Provider, Shortfall Fund Provider, and Administrator)
Paragon Finance PLC will provide a subordinated loan to the issuer, which will fund the first loss fund, which is a cash reserve forming part of the credit enhancement for the notes.

The subordinated loan will also be used, to the extent that funds are available, to fund mandatory further advances in the mortgage pool, to reduce the principal ledger to zero, and to replenish the first-loss fund to the amount required to allow it to fund discretionary further advances.

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 collection and default management procedures (as administrator) has been conducted. Such a review is an integral part of the corporate overview undertaken during the rating process of any transaction and is maintained throughout the life of the transaction. Paragon Finance 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 (Transaction Account Provider)
NatWest will provide the transaction account. All payments from borrowers will be paid into a collection account, which is also held with NatWest, and then transferred to the transaction account.

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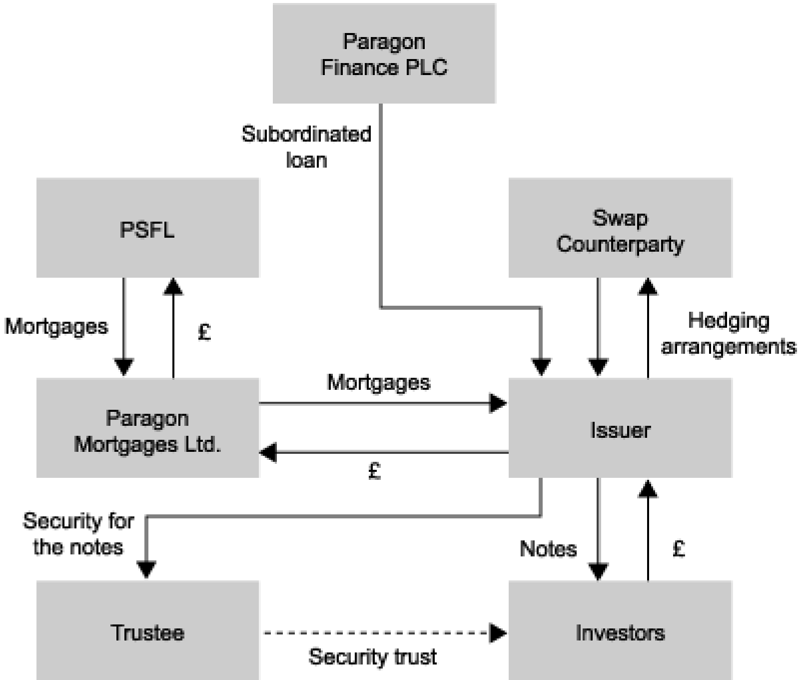
Transaction Structure
The structure of the transaction is shown in the following chart.

Paragon No. 4 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 (see "Security Package" below). The borrowers in respect of the issuer mortgages are individuals and limited liability companies incorporated in England, Wales, and Scotland.

Part of the note proceeds will be used to establish a prefunding reserve in an amount of approximately £85 million. Until the first principal determination date, the issuer 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 June 30, 2002 will be applied in redemption of the class A notes on the first interest payment date.

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

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

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

- No enforcement notice has been given by the trustee.
- Conversion will not affect the ratings on the notes.
- As of the closing date, Paragon Finance Ltd. has not failed to repurchase a mortgage for breach of representations in respect of such

mortgage.
- The issuer must enter into a hedging arrangement (if required) to ensure that conversion will not affect the ratings on the notes.

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

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

- Lending guidelines must be satisfied.
- If applicable, provisions of the Consumer Credit Act must be complied with.
- Discretionary further advances may not be made out of funds notified as being available for redemption of the notes between the principal determination date and the interest payment date.
- As a result of the discretionary further advance (and any mandatory further advance) the loan-to-value (LTV) may not increase by more than 1% relative to the LTV at closing.
- Principal available funds or drawn amounts under the subordinated loan must be sufficient to fund the discretionary further advances.
- As a result of the discretionary further advance, the final maturity of the mortgage may not extend beyond 2042.
- No more than 2% of the issuer mortgages by current balance are more than three months in arrears.
- The first-loss fund must be at its required amount.
- The balance on the principal ledger must be equal to zero.
- There can be no breach by the borrower of mortgage conditions.

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

No mandatory further advance will be made if the borrower breaches any of the mortgage conditions. The issuer will not agree to make a discretionary further advance if the sum of the discretionary and mandatory further advances is greater than £70 million.

The maximum aggregate amount of the mandatory further advances in the provisional pool is about £2.8 million (0.82% of the pool).

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

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Note Terms and Conditions
The issuer is expected to issue 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, and which will step up after April 2008. Interest on the notes will be payable quarterly in arrears on the 7th of October, January, April, and July each year, commencing on July 7, 2002.

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 (April 2007). 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;
- The minimum outstanding amount of the class B notes being £0.5 million while any class A notes remain outstanding; and
- Arrears of more than three months being less than 7.5%.

Prefunding and Nonverified Mortgages

The issuer may purchase mortgages after the closing date and before the first principal determination date. These mortgages are known as non-verified mortgages and must meet certain criteria, including:

- Standard & Poor's confirmation;
- Satisfaction of the conditions precedent and lending criteria for mortgage purchases (e.g., the mortgages have made at least one payment); and
- No occurrence of an administrator termination event.

On closing, the difference between the proceeds from note issuance (subloan drawing) and the closing mortgage portfolio will be credited to the prefunding reserve ledger.

Purchase of Pre-Closing Arrears

Based on the provisional pool data, there will be mortgages purchased by the issuer with an approximate principal balance of £2.5 million, which have an outstanding arrears amount in excess of one monthly payment. This principal balance is known as "purchased pre-closing accruals and arrears". The maximum principal amount that will be purchased by the issuer (to include mortgage purchases during the prefunded period) is £6 million. The increased mortgage arrears amount will not present an additional risk to the transaction as the quality of the portfolio is required to remain similar to that of the closing mortgage pool.

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 falls below £85 million.

The issuer may also redeem the notes on the interest payment date in April 2005 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 July 2032 and July 2044, 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.

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Protection Against Key Risks (Credit and Liquidity)

Mortgage Interest Rate Setting
The administrator will, on behalf of the issuer and trustee, set the rates of interest applicable on the relevant mortgages (other than the fixed, capped, or LIBOR-linked mortgages). The administrator must ensure that the weighted average of the rate of interest applicable to the mortgages after taking into account all hedging arrangements and income received from the investment of funds in the transaction account is not less than 1.6% until April 2008 and 2.0% thereafter above the LIBOR applicable on the notes.

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

Subordinated Loan
Prior to closing Paragon Finance PLC will make available to the issuer a subordinated loan facility that will be drawn on closing. The facility will be used to establish the first loss fund, thus achieving the initial rating on the notes.

The first loss fund will be funded at 1.75% of the outstanding notes (the "required amount") on closing. The following conditions must be satisfied in order for the required amount to be reduced to 3.5% of the current balance of the mortgages: (i) the principal deficiency ledger must be equal to zero, (ii) the mortgages that are greater than three months in arrears must not be more than 6% of the entire mortgage balance, and (iii) the first loss fund must have reached 3.5% of the current mortgage balance. Note the required amount will have a floor of the greater of £500,000 or two times the size of the largest loan outstanding.

Paragon Funding PLC will agree to make sufficient funds available to allow the issuer to make discretionary further advances to the extent that they cannot be funded out of the available redemption funds.

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

Further amounts may also be borrowed, for example: (i) to cover swap and hedging amounts which are junior in the priority of payments; (ii) to pay the issuer any prepayment fees waived by the administrator; (iii) to pay part of the purchase price in relation to discounts and unamortized cashbacks on the non-verified mortgages; and (iv) to fund the purchase of additional hedging instruments to the extent they cannot be funded out of the issuer revenue ledger in accordance with the priority of payments.

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

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Collateral Details

Collateral Description
The provisional mortgage pool of £339,573,207.09 comprises 5,750 loans and

was drawn up on Dec. 31, 2001. The loans in the provisional portfolio were originated by Paragon Mortgages Ltd. between September 1994 and December 2001 and have been administered by Paragon Finance PLC since origination.

Features of the provisional mortgage pool include the following:

- Each loan is secured by a first legal charge of a residential property in England, Scotland, and Wales.
- Of the total pool, 84.30% are buy-to-let mortgages, with the remainder being owner-occupied.
- Of the total mortgages, 36.64% are repayment mortgages, and 63.36% are interest-only mortgages.
- Of the total loans, 55.97% were used for house purchases and 44.03% were used for remortgaging.
- The weighted-average LTV of the mortgage pool is 75.51%.
- The average outstanding mortgage balance is £59,056.21.
- The largest concentration of mortgages by geographic area is in the south-east of England (including London) at 47.62%. There are no significant concentrations in other regions.
- The weighted-average term to maturity is approximately 19.4 years.

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Standard & Poor's Stress Test

The rating analysis includes a conservative assessment of the credit risk inherent in the transaction. The credit enhancement levels have been sized after analyzing the impact that severe stress scenarios would have on the collateral. In determining the credit quality of a mortgage pool, an estimate must be made of a worst case of potential losses that could occur because of foreclosures. This estimate of potential losses is the amount of loss protection needed. All types of loans are thus eligible for inclusion in a pool, provided their credit risk can be quantified and adequate loss protection is supplied.

A feature of the portfolio is the high level of different types of buy-to-let mortgages. These include professional and amateur lettings through personal loans or corporate loans (usually via SPEs). 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 (such as reliance on tenants to make timely rental payments), notwithstanding the weighted-average LTV of this portfolio. These risks are mitigated through Paragon Mortgages Ltd.'s greater understanding of the market as a specialist lender and its conservative buy-to-let underwriting policy.

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

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Continual Surveillance

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

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