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Ratings Affirmed On Junior And Mezzanine Notes In Paragon 8 And 9 U.K. RMBS Transactions

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LONDON (Standard & Poor's) Feb. 19, 2009—Standard & Poor's Ratings Services today affirmed and removed from CreditWatch positive its ratings on the junior and mezzanine notes issued by Paragon Mortgages (No. 8) PLC and Paragon Mortgages (No. 9) PLC (see list below). The ratings on the class A notes in both transactions remain unaffected.

We initially placed the affected notes on CreditWatch positive on Sept. 8, 2008, following an initial review of the information that we had received for each transaction at that time (see related research below). However, the most up-to-date transaction information that we have received shows that the collateral performance has weakened since that time, following the general trend in the U.K. buy-to-let market (see related research below). As a result, we have removed the notes from CreditWatch positive and affirmed them. The affirmation is based on our credit analysis of the collateral, plus a detailed cash flow analysis.

These two Paragon portfolios have historically experienced low arrears, but these had significantly increased at the most recent interest payment date (IPD). At the January 2009 IPD, the percentage of loans in arrears in the Paragon Mortgages (No. 8) portfolio almost doubled to 7.30% from 3.79% at the October 2008 IPD. Similarly, Paragon Mortgages (No. 9)'s portfolio showed a

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marked increase at the November 2008 IPD, up to 4.67% from 3.18% at the August 2008 IPD.

In addition, an increasing number of loans in both portfolios have had a receiver-of-rent appointed. At the most recent IPDs, the percentage of these loans in Paragon Mortgages (No. 8) and Paragon Mortgages (No. 9)'s portfolios were 3.21% and 2.72%, respectively, up from 2.20% for both deals at their previous IPDs. Of the "receiver-of-rent" properties, 30% and 6% are currently performing for Paragon Mortgages (No. 8) and Paragon Mortgages (No. 9), respectively. Together with a decline in the house price index, this places downward pressure on the value of the underlying properties and we anticipate that increased losses are likely.

Despite the deterioration in collateral performance, our credit and cash flow analyses show that the current ratings are appropriate, resulting in today's affirmation. However, we will continue to closely monitor performance as further deterioration could negatively affect the ratings on the notes.

The notes, issued between 2004 and 2005, are backed by portfolios of first-ranking residential mortgages secured over properties in the U.K. and originated by Paragon Mortgages Ltd. and Mortgage Trust Ltd.

RELATED RESEARCH

- Update To The Criteria For Rating U.K. Residential Mortgage-Backed Securities (published on Jan. 6, 2009)
- S&PCORRECT: Junior Notes In Two U.K. RMBS Paragon Transactions Put On CreditWatch Positive (published on Sept. 8, 2008)
- U.K. Buy-To-Let Mortgage Performance Shows Signs Of Deterioration (published on Nov. 14, 2008)

Related articles are available on RatingsDirect. Criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

RATINGS LIST

Class	To	Rating	From
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Ratings Affirmed And Removed From CreditWatch Positive

Paragon Mortgages (No. 8) PLC
€833 Million And £420 Million Mortgage-Backed Floating-Rate Notes

B1a	A		A/Watch Pos
B1b	A		A/Watch Pos

Ratings Affirmed On Junior And Mezzanine Notes In Paragon 8 And 9 U.K. RMBS Transactions

Paragon Mortgages (No. 9) PLC

€450.5 Million, £356 Million, And \$60 Million Mortgage-Backed Floating-Rate Notes

Ba	AA	AA/Watch Pos
Bb	AA	AA/Watch Pos
Ca	A	A/Watch Pos
Cb	A	A/Watch Pos

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