

July 31, 2009

Rating Lowered On Class C Notes In Paragon Secured Finance (No. 1)'s U.K. RMBS; Classes A And B Affirmed

Surveillance Credit Analyst:

Rehanna Sameja, London (44) 20-7176-3647; rehanna_sameja@standardandpoors.com

OVERVIEW

- Our credit and cash flow analysis showed that the current credit enhancement for the class C notes is insufficient to support its rating.
- We lowered our rating on the class C notes and affirmed our ratings on classes A and B.
- The portfolio comprises almost exclusively second-lien, floating-rate loans originated in the U.K. by Paragon Secured Financing.

LONDON (Standard & Poor's) July 31, 2009--Standard & Poor's Ratings Services today lowered and removed from CreditWatch negative its credit rating on the class C notes issued by Paragon Secured Finance (No. 1) PLC (PSF1). At the same time, we affirmed our ratings on the class A and B notes (see list below).

Today's actions follow a credit and cash flow review applying our U.K. residential mortgage-backed securities (RMBS) criteria, of the most recent information received for this transaction.

This analysis showed an increased risk to debt service payments on PSF1's class C notes. We believe that the specific nature of the portfolio will leave any defaults particularly exposed to declines in U.K. house prices; we calculate the weighted-average loan-to-value in the portfolio as being almost

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95%. Accordingly, we have lowered our rating on these notes by one notch to 'BBB-'. The class A and B notes have built sufficient enhancement for us to affirm the ratings.

The PSF1 portfolio comprises almost exclusively second-lien mortgage loans secured over U.K. properties. Given their relative ranking, we would generally expect losses on defaults from such a portfolio to be significantly higher than in most nonconforming transactions. At the May interest payment date, cumulative losses had increased by 46 basis points (bps) to 4.57%, following an increase of 58 bps in January. 90+ day delinquencies are currently 6.74% for PSF1, rising from 5.54% at the previous interest payment date.

Although the first loss fund remains undrawn and all losses to date have been covered by excess spread, we believe that increasing arrears will manifest themselves in ever greater defaults, while house price declines are likely to increase loss severities and place greater pressure on transaction cash flows going forward. After curing losses in the period, quarterly excess spread for the May interest payment date was 1.37%.

RELATED RESEARCH

- Methodology And Assumptions: Update To The Criteria For Rating U.K. Residential Mortgage-Backed Securities, Jan. 6, 2009
- U.K. Nonconforming RMBS Index Report, published quarterly

RATINGS LIST

Class	Rating	To	From
Paragon Secured Finance (No. 1) PLC £300 Million Mortgage-Backed Floating-Rate Notes			

RATING LOWERED AND REMOVED FROM CREDITWATCH NEGATIVE

C	BBB-	BBB/Watch Neg
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RATINGS AFFIRMED

A	AAA
B	A

Additional Contact:

Structured Finance Europe; StructuredFinanceEurope@standardandpoors.com

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