

April 7, 2009

Rating On Paragon Secured Finance (No. 1)'s Class C Notes Put On Watch Neg; Paragon Mortgages 10, 11, 12 Affirmed

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LONDON (Standard & Poor's) April 7, 2009—Standard & Poor's Ratings Services today placed on 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 notes issued by Paragon Mortgages (No. 10) PLC (PM10), Paragon Mortgages (No. 11) PLC (PM11), and Paragon Mortgages (No. 12) PLC (PM12) (see list below).

Today's CreditWatch placement and affirmations follow an initial review of the most recent information received for these transactions, which were all originated between 2004 and 2006. This analysis showed that the likelihood of a negative rating action has increased for PSF1's class C notes.

The CreditWatch placement is based on a weakening of collateral performance. The PSF1 portfolio comprises almost exclusively second-lien mortgage loans secured over U.K. properties. Given their relative ranking, we would generally expect losses from such a portfolio to be significantly higher than in most nonconforming transactions. Cumulative losses have been increasing—to 4.1% as of the January interest payment date (IPD) from 3.5% in the previous quarter. While all losses to date have been covered by excess spread, continued house price falls are likely to increase losses.

Somewhat alleviating this pressure is the deleveraging of the transaction

which has resulted in credit enhancement increasing to 6.51% from 4.50% for the class C notes. Additionally, the transaction's delinquency levels continue to outperform our nonconforming index: 90+ day delinquencies are currently 5.54% for PSF1, whereas our index is 13.71%. Repossessions are also low at 30 basis points (bps) from 37 bps at the previous IPD.

We will now carry out a more detailed loan-level and cash flow analysis of this transaction and will announce the results and any change to the rating on class C notes in due course.

We have concluded our credit and cash flow analysis of the PM10, PM11, and PM12 transactions. These deals continue to perform well, with cumulative losses at 6 bps or less for each and total delinquencies of no more than approximately 6%. As a result, we have affirmed our ratings on the notes in PM10, PM11, and PM12. In contrast to PSF1, these transactions are backed by portfolios consisting exclusively of buy-to-let properties, for which we have seen a downward trend. As such, we will continue to monitor them closely in the coming periods.

RELATED RESEARCH

- Methodology And Assumptions: Update To The Criteria For Rating U.K. Residential Mortgage-Backed Securities (published on Jan. 6, 2009)
- U.K. Buy-To-Let Mortgage Performance Shows Signs of Deterioration (published on Nov. 18, 2008)
- U.K. Nonconforming RMBS Index Report (published quarterly)

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RATINGS LIST

Class	Rating
To	From

RATING PLACED ON CREDITWATCH NEGATIVE

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

C	BBB/Watch Neg	BBB
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RATINGS AFFIRMED

Paragon Mortgages (No. 10) PLC
£187.5 Million, €269.0 Million, And \$1.1 Million Mortgage-Backed Floating-Rate

Notes

A1	A-1+
A2a	AAA
A2b	AAA
B1a	AA
B1b	AA
C1a	A
C1b	A

Paragon Mortgages (No. 11) PLC

£165.5 Million, €389.6 Million And \$985 Million Mortgage-Backed Floating-Rate Notes

A1	AAA/A-1+
A2a	AAA
A2b	AAA
B1a	AA
B1b	AA
C1b	A

Paragon Mortgages (No. 12) PLC

£187 Million, €477 Million, And \$1.81 Billion Mortgage-Backed Floating-Rate Notes

A1	AAA/A-1+
A2a	AAA
A2b	AAA
A2c	AAA
B1a	AA
B1b	AA
C1a	A
C1b	A

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