

Announcement: Moody's updates assumptions in 11 UK Buy-to-Let transactions and places 1 UK Buy-to-Let transaction on review for possible upgrade

Global Credit Research - 29 Nov 2010

London, 29 November 2010 -- Moody's Investors Service has today placed under review for possible upgrade the following two classes of notes issued by the following UK Buy-to-Let transaction:

- First Flexible No. 5 plc ("First Flexible 5"): Classes M and B.

The review was prompted by better-than-expected performance of the collateral backing the notes as well as credit enhancement build-up since closing. Moody's expects to conclude its rating review within six months.

Also Moody's Investors Service has today updated loss assumptions in the 11 UK Buy-to-Let RMBS transactions listed below (the affected transactions) and has taken no rating action, in consideration of the sufficient levels of credit enhancement currently available in the structures.

- Auburn Securities 5 PLC;

- Ludgate Funding Series 2007-FF1; and

- Paragon Mortgages No. 7, 8, 9, 10, 11, 12, 13, 14 and 15 PLC.

Moody's has increased its lifetime loss assumption in the affected transactions, as the performance of the underlying mortgage portfolios to date has been worse than previously assumed. In 1 out of the 11 affected transactions, Moody's has also increased its Milan AaaCE assumption, following the assessment of updated loan-by-loan information of the outstanding portfolio. The lifetime loss and the MILAN Aaa credit enhancement are the key parameters used by Moody's to calibrate its loss distribution curve, which is one of the core inputs in our cash-flow model.

The review of First Flexible 5 and the update of loss assumptions in the affected transactions follows a portfolio review of the performance of 22 Moody's rated non-master trust RMBS transactions with a Buy-to-Let concentration of over 35%. The list of transactions included in the portfolio review can be found under this link

http://v3.moody.com/viewresearchdoc.aspx?docid=PBS_SF227101.

Moody's has also factored into its analysis the negative sector outlook for UK RMBS. The sector outlook reflects the following expectations of key macro-economic indicators: GDP to increase by 1.6% in 2010 and by 2.3% in 2011, unemployment to stay at approximately 7.9% in 2010 and 2011, house prices to remain relatively flat over the next year. For transaction specific performance, please refer to Moody's Performance Overviews available on www.moody.com.

TRANSACTION OVERVIEWS

First Flexible 5 closed in June 2002. Loans more than 90 days in arrears (including loans under receivership of rent) currently correspond to 0.80% of the current portfolio balance, while cumulative losses amount to 0.07% of the original portfolio balance. The transaction has a current pool factor of 19.6%. The credit enhancement (excluding gross excess spread) of Class M and Class B notes has increased to 21.1% from 3.9% at closing and to 8.7% from 1.4% at closing, respectively.

Auburn Securities 5 PLC closed in September 2005. Loans more than 90 days in arrears and loans in repossession currently correspond to 1.39% and 1.02% of the current portfolio balance respectively, while cumulative losses amount to 0.33% of the original portfolio balance. Taking into account the performance of the underlying mortgage portfolio to date, Moody's has increased its lifetime loss expectations from 1.07% at closing to 1.75% of the original portfolio balance and it has maintained its Milan AaaCE at 14.96% of the current portfolio balance.

Ludgate Funding Series 2007-FF1 closed in June 2007. Loans more than 90 days in arrears (including outstanding repossessions) currently correspond to 4.87% of the current portfolio balance, while cumulative losses amount to 1.04% of the original portfolio balance. Taking into account the performance of the underlying mortgage portfolio to date, Moody's has increased its lifetime loss expectations from 1.7% at closing to 3% of the original portfolio balance and it has revised its Milan AaaCE from 18.4% to 21.5% of the current portfolio balance.

Paragon Mortgages (No. 7) PLC closed in May 2004. Loans more than 90 days in arrears (including loans under receivership of rent) currently correspond to 1.12% of the current portfolio balance, while cumulative losses amount to 0.36% of the original portfolio balance. Taking into account the performance of the underlying mortgage portfolio to date, Moody's has increased its lifetime loss expectations from 0.84% at closing to 1.5% of the original portfolio balance and it has maintained its Milan AaaCE at 13% of the current portfolio balance.

Paragon Mortgages (No. 8) PLC closed in October 2004. Loans more than 90 days in arrears (including loans under receivership of rent and outstanding repossessions) currently correspond to 0.68% of the current portfolio balance, while cumulative losses amount to 0.31% of the original portfolio balance. Taking into account the performance of the underlying mortgage portfolio to date, Moody's has increased its lifetime loss expectations from 0.80% at closing to 1.5% of the original portfolio balance and it has maintained its Milan AaaCE at 18% of the current portfolio balance.

Paragon Mortgages (No. 9) PLC closed in July 2005. Loans more than 90 days in arrears (including loans under receivership of rent) currently correspond to 1.02% of the current portfolio balance, while cumulative losses amount to 0.40% of the original portfolio balance. Taking into account the performance of the underlying mortgage portfolio to date, Moody's has increased its lifetime loss expectations from 0.94% at closing to 1.5% of the original portfolio balance and it has maintained its Milan AaaCE at 17.77% of the current portfolio balance.

Paragon Mortgages (No. 10) PLC closed in November 2005. Loans more than 90 days in arrears (including loans under receivership of rent)

currently correspond to 0.90% of the current portfolio balance, while cumulative losses amount to 0.45% of the original portfolio balance. Taking into account the performance of the underlying mortgage portfolio to date, Moody's has increased its lifetime loss expectations from 1.01% at closing to 1.5% of the original portfolio balance and it has maintained its Milan AaaCE at 15.88% of the current portfolio balance.

Paragon Mortgages (No. 11) PLC closed in March 2006. Loans more than 90 days in arrears (including loans under receivership of rent) currently correspond to 1.08% of the current portfolio balance, while cumulative losses amount to 0.27% of the original portfolio balance. Taking into account the performance of the underlying mortgage portfolio to date, Moody's has increased its lifetime loss expectations from 0.97% at closing to 1.5% of the original portfolio balance and it has maintained its Milan AaaCE at 19.48% of the current portfolio balance.

Paragon Mortgages (No. 12) PLC closed in July 2006. Loans more than 90 days in arrears (including loans under receivership of rent) currently correspond to 0.83% of the current portfolio balance, while cumulative losses amount to 0.12% of the original portfolio balance. Taking into account the performance of the underlying mortgage portfolio to date, Moody's has increased its lifetime loss expectations from 1% at closing to 1.25% of the original portfolio balance and it has maintained its Milan AaaCE at 16.23% of the current portfolio balance.

Paragon Mortgages (No. 13) PLC closed in October 2006. Loans more than 90 days in arrears (including loans under receivership of rent) currently correspond to 1.13% of the current portfolio balance, while cumulative losses amount to 0.13% of the original portfolio balance. Taking into account the performance of the underlying mortgage portfolio to date, Moody's has increased its lifetime loss expectations from 1% at closing to 1.5% of the original portfolio balance and it has maintained its Milan AaaCE at 15.6% of the current portfolio balance.

Paragon Mortgages (No. 14) PLC closed in March 2007. Loans more than 90 days in arrears (including loans under receivership of rent) currently correspond to 1.19% of the current portfolio balance, while cumulative losses amount to 0.16% of the original portfolio balance. Taking into account the performance of the underlying mortgage portfolio to date, Moody's has increased its lifetime loss expectations from 1% at closing to 1.5% of the original portfolio balance and it has maintained its Milan AaaCE at 17% of the current portfolio balance.

Paragon Mortgages (No. 15) PLC closed in July 2007. Loans more than 90 days in arrears (including loans under receivership of rent) currently correspond to 1.52% of the current portfolio balance, while cumulative losses amount to 0.18% of the original portfolio balance. Taking into account the performance of the underlying mortgage portfolio to date, Moody's has increased its lifetime loss expectations from 1% at closing to 1.75% of the original portfolio balance and it has maintained its Milan AaaCE at 17.2% of the current portfolio balance.

REVIEW PROCESS

In identifying the affected transactions, Moody's conducted a portfolio review of 22 Moody's rated non-master trust RMBS transactions with a Buy-to-Let concentration of over 35%. The list of transactions included in the portfolio review can be found under this link

http://v3.moodys.com/viewresearchdoc.aspx?docid=PBS_SF227101.

During the analysis, the rating agency took into account the performance of the collateral to date, its deviation from Moody's expectations as well as the levels of credit enhancement available to absorb the future projected losses on the respective portfolios. Within the UK Buy-to-Let RMBS sector, the mortgage portfolios in the affected transactions have shown a deviation from Moody's performance expectations. After taking into account the level of credit enhancement in each structure, Moody's has taken no rating action on the affected transactions due to the current level of credit enhancement sufficiently supporting the current ratings of the notes.

The full review of the ratings of Classes M and B of First Flexible 5 will take into account the current capital structure of the transaction. As part of its detailed transaction review, Moody's will reassess its lifetime loss expectation reflecting the collateral performance to date as well as the future macro-economic environment. Moody's will also request updated loan-by-loan information to revise its MILAN Aaa credit enhancement. Loan-by-loan information will also allow Moody's to validate its assumptions with regards to which loans have a higher default propensity. The lifetime loss and the MILAN Aaa credit enhancement are the key parameters used by Moody's to calibrate its loss distribution curve, which is one of the core inputs in our cash-flow model.

LIST OF AFFECTED NOTES

The classes of notes affected by today's rating review are detailed below.

Issuer: First Flexible No. 5 plc

....GBP22MM Notes, A1 (sf) Placed Under Review for Possible Upgrade; previously on Jun 12, 2002 Assigned A1 (sf)

....GBP12MB Notes, Baa2 (sf) Placed Under Review for Possible Upgrade; previously on Jun 12, 2002 Assigned Baa2 (sf)

Moody's ratings address the expected loss posed to investors by the legal final maturity of the notes. Moody's ratings address only the credit risks associated with the transactions. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

Moody's will continue to monitor closely the above transactions. The principal methodologies used in rating and/or monitoring this transaction were "Moody's Approach to Rating UK RMBS" published in April 2005, "Moody's Updated Methodology for Rating UK RMBS" published in November 2007 and "Revising Default/Loss Assumptions Over the Life of an ABS/RMBS Transaction" published in December 2008, available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website. In addition, Moody's publishes a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moodys.com/SFQuickCheck.

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