

FITCH AFFIRMS FIRST FLEXIBLE 4, 7 & PARAGON SECURED UK RMBS

Fitch Ratings-London-21 July 2011: Fitch Ratings has affirmed First Flexible No. 4 Plc (FF4), which contains loans originated by Mortgage Trust Limited, First Flexible No. 7 Plc (FF7), which contains loans originated by Mortgage Trust Limited, Mortgage Trust Services Plc and Paragon Mortgages Limited, and Paragon Secured Finance No 1 Plc (PSF1), which contains loans originated by Paragon Personal Finance Limited. All originators are part of the Paragon Group. A full list of rating actions is at the end of this comment.

The affirmations reflect the relatively stable performance of the three transactions over the past year. The volume of loans in arrears by three months or more for FF4, FF7 and PSF1 stands at 0.43%, 5.71% and 9.15% of the respective outstanding collateral balances as of June 2011 for FF4, May 2011 for FF7 and April 2011 for PSF1 compared to 0.57%, 5.45% and 7.89% a year ago. The higher increase in arrears for PSF1 is mainly attributed to the deleveraging of the pool as the increase in volume terms has been more minimal.

FF4 and FF7 comprise 81% and 40% of flexible loans, respectively, where borrowers have the option of prepaying a portion of their principal balance at any point in time and are then permitted to use the amount prepaid as a line of credit for future redraws. To mitigate such risks, the transactions' structures include redraw facilities which can be drawn on when there is insufficient principal funds within the transaction to fund the redraws. As of May/June 2011, these facility balances stood at GBP7.02m and GBP3.35m, respectively. With borrower redraws being limited over the past year and the environment of low prepayment rates expected to prevail, redraw exposure is not expected to have a material impact on the performance of the transactions. Additionally, 85.7% of the underlying loans in FF4 are classed as buy-to-let.

Almost 100% of PSF1's pool consists of second-charge loans, mainly used for debt consolidation purposes. Whilst this is likely to result in much higher loss severities due to prior-ranking mortgage claims, it also enables the transaction to benefit from high margins earned on the underlying loans relative to the margins being paid to noteholders. Fitch thus expects the continued generation of high levels of excess spread to sufficiently cover losses incurred on the sale of repossessed properties and to fund the provisioning mechanism whereby loans that are more than 12 months in arrears are 100% provisioned for. However, concerns remain with respect to the impact of a rise in interest rates on the relatively high arrears level and potential volatility of loss severities on the second-charge loans. For this reason, the Outlook for the junior Class C note is Negative.

Additionally, FF4's Class A and M notes and all notes of FF7 have been amortising on a pro-rata basis since July 2009 and December 2009, respectively. The pay-down on the PSF1 notes also switched to pro-rata as of the last interest payment date (IPD) in May 2011. However, with the current rate of delinquency seen in PSF1, there is the possibility that the 10% trigger for loans in arrears by three months or more will be breached on the next two to three IPDs, at which point amortisation would revert back to a sequential basis.

The ratings actions are as follows:

Class A (ISIN XS0132692384): affirmed at 'AAAsf'; Outlook Stable; Loss Severity Rating 'LS-1'
Class M (ISIN XS0132692897): affirmed at 'AAAsf'; Outlook Stable; Loss Severity Rating 'LS-1'
Class B (ISIN XS0132693192): affirmed at 'AA-sf'; Outlook Stable; Loss Severity Rating 'LS-1'

First Flexible No. 7 Plc

Class A (ISIN XS0282470797): affirmed at 'AAAsf'; Outlook Stable; Loss Severity Rating 'LS-1'
Class B (ISIN XS0282471092): affirmed at 'AAsf'; Outlook Stable; Loss Severity Rating 'LS-3'
Class C (ISIN XS0282471175): affirmed at 'Asf'; Outlook Stable; Loss Severity Rating 'LS-3'

Paragon Secured Finance (No.1) Plc
Class A (ISIN XS0208202415): affirmed at 'AAAsf'; Outlook Stable; Loss Severity Rating 'LS-3'
Class B (ISIN XS0208202688): affirmed at 'Asf'; Outlook Stable; Loss Severity Rating 'LS-3'
Class C (ISIN XS0208202845): affirmed at 'BBBsf'; Outlook Negative; Loss Severity Rating 'LS-3'

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Additional information is available at 'www.fitchratings.com'.

The sources of information used to assess these ratings, in addition to those mentioned in the applicable criteria, were investor and servicer reports.

Applicable criteria, 'EMEA Residential Mortgage Loss Criteria' dated 7 June 2011 and 'EMEA Residential Mortgage Loss Criteria Addendum - UK' dated 23 February 2010, are available at www.fitchratings.com

Applicable Criteria and Related Research:

EMEA Residential Mortgage Loss Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=631130

EMEA Residential Mortgage Loss Criteria Addendum - UK

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=500766

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