

Rating Raised On First Flexible No.4's Class B Notes; Others Affirmed In First Flex 4, 5, 7, And Paragon SF 1 RMBS Deals

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OVERVIEW

- In the First Flexible 5, First Flexible 7, and Paragon Secured Finance (No. 1) transactions, in our opinion the counterparty risk is adequately mitigated and the performance of the transactions is good.
- We have thus affirmed our ratings on all classes of notes in First Flexible 5, First Flexible 7, and Paragon Secured Finance (No. 1).
- We have also raised the rating on the class B notes in First Flexible 4 and affirmed all other notes in this transaction, due to improved performance and the mitigation of counterparty risks.
- First Flexible 4, 5, and 7, and Paragon Secured Finance (No. 1) are U.K. RMBS transactions.

LONDON (Standard & Poor's) May 9, 2011--Standard & Poor's Ratings Services today took various rating actions on First Flexible No. 4 PLC, First Flexible No. 5 PLC, First Flexible (No. 7) PLC, and Paragon Secured Finance (No. 1) PLC.

Specifically, we:

- Raised the rating on the class B notes in First Flexible No. 4;
- Affirmed the ratings on the class A and M notes in First Flexible No. 4; and
- Affirmed the ratings on all notes in First Flexible No. 5, First Flexible No. 7, and Paragon Secured Finance (No. 1) (see list below).

Today's rating actions reflect the current performance of the transactions and the application of our updated counterparty criteria for structured finance

transactions (see "Counterparty And Supporting Obligations Methodology And Assumptions," published on Dec. 6, 2010).

We did not place these transactions on CreditWatch negative on Jan. 18, 2011 for counterparty reasons, as we had received a sufficient proposal from the issuer, which outlined a viable timeline and is suitable to enable the transaction to comply with the criteria by the transition date of July 18, 2011.

For all four transactions, we have seen significant increases in the levels of credit enhancement since closing, with credit enhancement having more than doubled in all transactions. Arrears levels have also remained low. Total delinquencies were at 0.42%, 1.66%, 10.26%, and 17.02% in Q1 2011 for First Flexible 4, First Flexible 5, First Flexible 7, and Paragon Secured Finance (No. 1), respectively.

For each of the transactions, the bank account agreements are compliant with our updated counterparty criteria.

For all four transactions, the fixed/floating swap does not comply with the updated counterparty criteria, and so we have run our cash flow analysis without giving benefit to the swap. This acts as a stress to the transaction as the loans are receiving fixed interest, but on the notes we are stressing LIBOR up to 18% in a 'AAA' scenario. The fixed loan percentage for each transaction is low and will revert to a floating rate in the next nine months.

Where other documentation for counterparties has not been in line with our updated counterparty criteria, we have applied suitable stresses in our cash flows, in our view. For First Flexible 4 and First Flexible 5, the re-draw facilities are not compliant with our criteria, and so we have not given benefit to them in our analysis. The re-draw facilities are in place to mitigate the risk of having flexible loans in the pool. Flexible loans can make overpayments and then re-draw this overpayment.

For First Flexible 5, First Flexible 7, and Paragon Secured Finance (No. 1), all notes are passing our cash flow stresses at their current rating levels, and so we have affirmed the ratings on all notes. For First Flexible 4, the class B notes are passing our cash flow stresses at an 'A+' level, and we believe the credit enhancement levels are commensurate with an 'A+' rating. As such, we have upgraded this class to 'A+'.

First Flexible 4, 5, and 7, and Paragon Secured Finance (No. 1) are U.K. RMBS transactions.

RELATED CRITERIA AND RESEARCH

- Principles Of Credit Ratings, Feb. 16, 2011
- EMEA Structured Finance CreditWatch Actions In Connection With Revised Counterparty Criteria, Jan. 18, 2011
- Counterparty And Supporting Obligations Update, Jan. 13, 2011

- Credit FAQ: Standard & Poor's Explains Process For Applying Updated Counterparty Criteria, Dec. 14, 2010
- Counterparty And Supporting Obligations Methodology And Assumptions, Dec. 6, 2010
- Recent Global Financial Disruption Reinforces Counterparty Risk As A Key Securitization Exposure, Nov. 4, 2010

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information 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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RATING RAISED

First Flexible No. 4 PLC
£500 Million Mortgage-Backed Floating-Rate Notes
B A+ (sf) A- (sf)

RATINGS AFFIRMED

First Flexible No. 4 PLC
£500 Million Mortgage-Backed Floating-Rate Notes

A AAA (sf)
M AA (sf)

First Flexible No. 5 PLC
£500 Million Mortgage-Backed Floating-Rate Notes

A AAA (sf)
M AA (sf)
B BBB+ (sf)

First Flexible (No. 7) PLC
£268.6 Million Mortgage-Backed Floating-Rate Notes

A AAA (sf)
B AA (sf)
C A (sf)

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

A	AAA (sf)
B	A (sf)
C	BBB- (sf)

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