

FITCH RATINGS AFFIRMS 72 UK BTL TRANCHES, DOWNGRADES 2

Link to Fitch Ratings' Report: Fitch Ratings Affirms 72 UK BTL Tranches, Downgrades 2
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=682452

Fitch Ratings-London-22 June 2012: Fitch Ratings has downgraded both the class C1b notes and currency swap and also withdrawn the class A1 short-term ratings of Paragon Mortgages 15 and affirmed all tranches of Paragon Mortgages 7, 8, 10, 11, 12, 13, 14, 16, Edgbaston RMBS 2010-1 Plc, Deva Financing Plc and Hawthorn Finance Limited Series 2008-A. Fitch has also revised the Rating Outlook on Deva Financing to Negative from Stable. A full list of rating actions is available at www.fitchratings.com or by clicking on the link above.

The mortgage loans in the Paragon series were originated by Paragon Mortgage Limited and Mortgage Trust Limited, both subsidiaries of The Paragon Group. West Bromwich Building Society was the originator of the collateral for Hawthorn, while both Deva and Edgbaston were originated by Bank of Scotland, although under different brand names; the former by The Mortgage Business and the latter by Birmingham Midshires.

Each of the 12 transactions comprise predominantly buy-to-let (BTL) loans, ranging between 85% and 100% of the outstanding pool balance, with the exception of the Deva Financing collateral, which constitutes a lower portion of BTL loans at 44%. The majority of borrowers are on floating mortgage rates, which are highly affordable in the prevailing environment of low interest rates, particularly when compared to rental yields. The affirmations reflect the stability in the performance of the majority of transactions over the past year. This stability is also seen in BTL loans in the wider market for loans that were originated prior to the crisis, but also in more recent times, as borrowers take advantage of the buoyant market for residential rental property in many regions of the UK.

The volume of three months plus arrears ranging from 0.3% (Hawthorn) to 0.9% (Paragon 15) is relatively low when compared to levels seen in the owner-occupied mortgage sector. This excludes Deva, the only transaction where arrears are currently continuing to rise and stood at 6.8% in May 2012. The inferior performance of The Mortgage Business pool, with its focus on origination of loans reliant on self-certified income, forms the basis for the revision of the Outlook on the class A notes to Negative from Stable.

The pace at which properties have been repossessed and sold has remained fairly stable in the past year. Adequate excess spread generated within each of the transactions has meant that relatively low losses associated with the sale of repossessed assets have been comfortably cleared without the need to draw on their respective reserve funds.

Moreover, whilst the majority of transactions have a weighted average loss severity since close in the region of 20%-30%, a number of transactions, in particular the Paragon series, have fluctuated about 50% and concerns about future loss severities contributed to the downgrade of the class C notes to 'BBBs' from 'Asf'. This rating action is further supported by the fact that Paragon 15 has the highest level of three months plus arrears across the Paragon series (0.9%).

The Short-term ratings on the class A1 notes of Paragon 15 have also been withdrawn. Short-term ratings of remarketable notes are linked to the conditional note purchaser. Following the purchase of the remarketable notes by J.P. Morgan & Chase, and the subsequent termination of the notes' remarketing activities, Paragon 15's Short-term ratings are no longer applicable and thus have been withdrawn by the agency.

Separately, note amortisation in Deva and Hawthorn commenced in January 2012 and March 2012

respectively, following the conclusion of their revolving periods. While this will contribute towards a build-up in credit enhancement levels, future amortisation across all of the transactions is expected to be relatively slow, considering that interest rates for new BTL loans are uncompetitive compared to the rates on loans in these pools and the high proportion of interest-only loans (89% for Deva and 92% for Edgbaston).

Contact:

Lead Surveillance Analyst

Grace Yeo

Analyst

+44 (0) 20 3530 1486

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analyst

Gavin Crawford

Associate Director

+44 (0) 20 3530 1379

Committee Chairperson

Ketan Thaker

Senior Director

+44 (0) 20 3530 1392

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Sources of information - in addition to those mentioned in the applicable criteria, the sources of information used to assess these ratings were Investor and Servicer Reports.

Applicable criteria, 'EMEA Residential Mortgage Loss Criteria' dated 7 June 2011, 'EMEA Residential Mortgage Loss Criteria Addendum - UK' dated 12 August 2011 and 'Global Structured Finance Rating Criteria' dated 6 June 2012, 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=681096

Global Structured Finance Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=679923

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.