

**Announcement: Moody's updates on UK NC RMBS and ABS notes issued by entities ultimately owned by The Paragon Group of Companies**

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Global Credit Research - 29 Mar 2012

London, 29 March 2012 -- Moody's has maintained on review for possible downgrade the ratings of 37 senior notes issued by entities ultimately owned by The Paragon Group of Companies plc ("Paragon") pending the implementation of restructuring proposals.

The ratings of the affected notes were initially placed on review for possible downgrade on 14th October 2011 following the downgrade of Skipton Building Society from Baa1/P-2 to Ba1/NP. Moody's considers the affected transactions (the Paragon Transactions), to be exposed to payment disruption risk due to insufficient back-up servicing and cash management arrangements. Homeloan Management Limited ("HML"), which is part of Skipton Building Society ("Skipton"), acts as servicer, back-up servicer and back-up cash manager in all the Paragon Transactions.

Moody's has also maintained the ratings of the senior notes on review as a result of the potential legal risk arising from the fact that the issuers in the Paragon Transactions (the Paragon SPVs) are part of the Paragon group. We have concluded that the risk of a pensions liability arising during the life of the Paragon Transactions is not so remote that it can be excluded in our rating analysis. In particular, Moody's has analysed the implications of the Court of Appeal's ruling in the Nortel case in October 2011 and concluded that, while the decision itself has no impact on the rating of the Paragon Transactions, they are nevertheless exposed to potential pension liabilities. For more information please refer to the special comment "Paragon Transactions' Potential Exposure to Pensions Claims Cannot Be Excluded from Rating Analysis" published on 29 March 2012.

Moody's has been informed by Paragon that it is in the process of restructuring the transactions. In particular, the restructuring proposal includes the addition of a back-up servicer facilitator as well as the incorporation of estimation language in the transaction documents to ensure continuity of payments in case of servicer disruption. In addition, Paragon will also amend the transaction documents such that the potential exposure to pension liabilities is mitigated and to ensure that Moody's is notified of any change to the group corporate structure that may increase the likelihood of secondary tax liabilities arising.

If the restructuring is not implemented within the next three months, the ratings of senior notes in the Paragon Transactions could be downgraded by up to two notches due to exposure to (i) potential pension or tax liabilities and (ii) payment disruption risk.

The principal methodology used in these ratings was Moody's Approach to Rating RMBS in Europe, Middle East, and Africa, published in October 2009. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) a copy of this methodology.

Other Factors used in these rating are described in Global Structured Finance Operational Risk Guidelines: Moody's Approach to Analyzing Performance Disruption Risk published in June 2011.

In addition to the information provided below please find on the ratings tab of the issuer page at [www.moody's.com](http://www.moody's.com), for each of the ratings covered, Moody's disclosures on the lead rating analyst and the Moody's legal entity that has issued each of the ratings.

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