

**Announcement: Moody's updates on Paragon Mortgages (No. 16) PLC**

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Global Credit Research - 26 Mar 2012

**No ratings impact following addition of prefunded loans**

London, 26 March 2012 -- Moody's stated today that the addition of GBP13.8m of pre-funded loans will not, in and of itself, result in a reduction or withdrawal of the Aaa(sf) rating assigned to the Class A Notes.

There will be GBP163.5m of loans following the addition of the prefunded loans (equivalent to 9.2% of the current pool size of GBP149.7m) on 26 March 2012, subject to certain criteria being met.

The addition of the new assets does not alter the portfolio expected loss of 3% and the MILAN Aaa Credit Enhancement of 20.5% which serve as input parameters for Moody's cash flow model. The WA LTV of the pool following the addition of the pre-funded assets has increased marginally to 70.0% from 69.9%, with the proportion of employed borrowers and repayment loans both decreasing marginally.

In determining the impact of the proposal on the rating of the Notes, Moody's considered the characteristics of the newly added assets including the borrower concentration, amongst other factors, the added loans comply with the relevant criteria including: the weighted average interest coverage ratio being more than 152%, the top 20 borrowers comprising less than GBP16.9m, the new loans being made to unique borrowers and appropriate hedging arrangements being in place for the fixed loans.

Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have significant effect on yield and/or other payments to investors. The affirmation of Moody's ratings should not be taken to imply that there will be no adverse consequences for investors since in some cases such consequences will not impact the rating. Further information on the nature of credit ratings and Moody's rating methodologies can be found on [www.moody's.com](http://www.moody's.com).

The methodology used in this rating 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) for a copy of this methodology.

Other methodologies and factors that may have been considered in the process of providing this opinion can be found at [www.moody's.com](http://www.moody's.com) in the Rating Methodologies sub-directory under the Research & Ratings tab.

As the Euro area crisis continues, the rating of the structured finance notes remain exposed to the uncertainties of credit conditions in the general economy. The deteriorating creditworthiness of euro area sovereigns as well as the weakening credit profile of the global banking sector could negatively impact the ratings of the notes. For more information please refer to the Rating Implementation Guidance published on 13 February 2012 "How Sovereign Credit Quality May Affect Other Ratings". Please also refer to the recent rating actions on banks published on 15 February 2012, (please see "Moody's Reviews Ratings for European Banks" and "Moody's Reviews Ratings for Banks and Securities Firms with Global Capital Markets Operations" for more information).

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