

Ratings Lowered In U.K. RMBS Transaction Paragon Secured Finance (No. 1)

Surveillance Credit Analyst:

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OVERVIEW

- We have lowered our ratings on all classes of notes based on the application of our U.K. RMBS criteria and 2012 counterparty criteria.
- Paragon Secured Finance (No. 1) is backed by a pool of second-ranking U.K. mortgages. Paragon Personal Finance originated the collateral.

LONDON (Standard & Poor's) June 7, 2012--Standard & Poor's Ratings Services today lowered and removed from CreditWatch negative its ratings on Paragon Secured Finance (No. 1) PLC's class A, B, and C residential mortgage-backed securities (RMBS) notes.

On Dec. 12, 2011, we placed on CreditWatch negative our ratings on all classes of notes in the transaction following the application of our 2011 U.K. RMBS criteria.

Today's rating actions follow our credit and cash flow analysis of the most recent transaction information that we have received (February 2012). Our analysis reflects the application of our December 2011 U.K. RMBS criteria.

CREDIT AND CASH FLOW ANALYSIS

The available credit enhancement for all classes of notes has more than doubled since closing, due to the deleveraging of the pool. The transaction is currently paying pro rata, as all of the documented pro rata triggers have been satisfied, although the 90+ day arrears documented trigger of 10.00% is currently 0.15% from being breached. We have considered the possibility of the transaction paying sequentially, taking into account long-term trends in the 90+ day arrears bucket, and we incorporated this in our cash flow analysis.

The reserve fund remains fully funded and the transaction is generating excess spread.

Delinquencies of 90+ days have increased slightly since our last review, to 9.85% from 9.15%. Overall delinquencies remain slightly above the level of those that we have observed in transactions with a similarly large proportion of second-lien loans, but low compared with our nonconforming U.K. RMBS index. The transaction writes off 360+ day delinquencies, reducing the level of severe arrears.

In our analysis, our updated credit adjustments have led to a higher weighted-average foreclosure frequency due to the lack of seasoning credit given to the loans in the pool that are less than 60 months seasoned. They have also led to a higher weighted-average loss severity due to an increase in our market value decline assumptions. This is particularly notable in this transaction, given that the majority of the pool comprises second-lien mortgages. Overall, these factors have led to an increase in the required credit enhancement at each rating level, as per our U.K. RMBS criteria.

COUNTERPARTY CRITERIA APPLICATION

We consider that there is collection account risk in the transaction due to the lack of replacement language in the documentation, and the documentation thus not being compliant with our 2012 counterparty criteria. For this reason, we have applied a credit loss for those classes of notes that we rate above the level of the issuer credit rating on the collection account provider (National Westminster Bank PLC [NatWest]; A/Stable/A-1).

CREDIT STABILITY

According to our credit stability analysis, the maximum projected deterioration we would expect at each rating level for time horizons of one year and three years, under moderate stress conditions, is in line with our credit stability criteria.

RATING ACTIONS

We have lowered to 'AA+ (sf)' and removed from CreditWatch negative our rating on the class A notes following our cash flow analysis and the application of our 2012 counterparty criteria. The level of credit enhancement for this class of notes has not increased sufficiently to mitigate the increase in required credit coverage at the current rating level.

We have also lowered and removed from CreditWatch negative our ratings on the class B and C notes. As above, the level of credit enhancement on these notes has increased, although not to a sufficient degree to offset the increase in the required credit coverage. This increase in credit coverage is driven largely by a significant increase in the weighted-average loss severity due to the volume of second-lien loans in the pool.

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STANDARD & POOR'S 17G-7 DISCLOSURE REPORT

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities.

The Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at <http://standardandpoorsdisclosure-17g7.com>.

RELATED CRITERIA AND RESEARCH

- Counterparty Risk Framework Methodology And Assumptions, May 31, 2012
- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Ratings On 764 Tranches In 119 U.K. RMBS Transactions Placed On CreditWatch Negative After U.K. RMBS Criteria Update, Dec. 12, 2011
- U.K. RMBS Methodology And Assumptions, Dec. 9, 2011
- Request For Comment: Counterparty And Supporting Obligations Methodology And Assumptions--Expanded Framework, Nov. 21, 2011
- 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, May 9, 2011
- Methodology: Credit Stability Criteria, May 3, 2010

RATINGS LIST

Class	To	Rating	From
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Paragon Secured Finance (No. 1) PLC
£300 Million Asset-Backed Floating-Rate Notes

Ratings Lowered And Removed From CreditWatch Negative

A	AA+ (sf)	AAA (sf)/Watch Neg
B	BBB- (sf)	A (sf)/Watch Neg
C	B (sf)	BBB- (sf)/Watch Neg

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