

## Ratings Lowered Or Affirmed On Various Classes Of U.K. RMBS Notes In Paragon Mortgages Nos. 7 To 15

**Surveillance Credit Analyst:**

Neil Monro, London (44) 20-7176-6733; neil\_monro@standardandpoors.com

### OVERVIEW

- We have carried out our credit and cash flow analysis applying our 2011 U.K. RMBS criteria.
- As a result, we have taken various rating actions on all Paragon Mortgages transactions that we rate (Nos. 7 to 15).
- These are U.K. buy-to-let transactions securitizing loans originated by Paragon Mortgages Ltd. and Mortgage Trust Ltd. The transactions closed between May 2004 and July 2007.

LONDON (Standard & Poor's) June 8, 2012--Standard & Poor's Rating Services today lowered its credit ratings on various classes of notes issued by Paragon Mortgages Nos. 7, 8, 9, 10, 11, 12, 13, 14, and 15.

For the full list of today's rating actions, see "List Of Rating Actions In U.K. RMBS Transactions Paragon Mortgages Nos. 7 To 15", published on June 8, 2012.

Today's rating actions follow our credit and cash flow analysis of the most recent transaction information that we have received. Our analysis incorporates our 2011 U.K. residential mortgage-backed securities (RMBS) criteria.

As part of this analysis, the weighted-average loss severity (WALS) has increased for these transactions due to our higher market-value decline assumptions. Under our 2011 criteria, we assess market value on a regional basis and incorporate a degree of over- or undervaluation. In general, our

required credit enhancement has increased and as such, these assumptions are more stressful to a transaction when we run our cash flow scenarios.

Our updated cash flow modeling includes simulating the impact of varying recession timings, starting in months 1, 13, 25, and 37. Applying our prepayment stresses before different future recession timings can lead to our weighted-average foreclosure frequency (WAFF) being greater than the outstanding balance at the start of our modeled recession. In these scenarios, we assume the remaining balance has defaulted.

The combination of applying our updated WAFF and WALs with these updated cash flow stresses means that most mezzanine and junior classes of notes were unable to pass our rating scenarios at their current ratings. As such, we have lowered our ratings accordingly.

All of these Paragon transactions include some notes denominated in euros or U.S. dollars. In Paragon 7, 8, 9, 10, and 13, the currency swap documentation does not comply with our 2010 counterparty criteria. Therefore, in these transactions, the maximum potential rating is linked to the issuer credit rating (ICR) on the cross currency swap provider, plus one notch.

Due to an error on July 15, 2011, we did not lower our ratings on Paragon 7's class B1a and B1b notes to 'AA- (sf)' from 'AA (sf)'. In Paragon 7, the maximum potential rating is linked to the ICR on The Royal Bank of Scotland (A/Stable/A-1) plus one notch, which was 'AA-' at that time. Subsequently, as part of our current review, we have today lowered these ratings to 'A (sf)' due to the application of our 2011 U.K. RMBS criteria.

In Paragon 11, 12, 14, and 15, the currency swap documentation is in line with our 2010 counterparty criteria, so the maximum potential rating is 'AAA (sf)'. However, in Paragon 11 and 12, the cash flow results indicate a downgrade for the senior notes to 'AA (sf)'. In Paragon 14 and 15, the senior notes are able to maintain their 'AAA (sf)' ratings.

The collateral performance for all of these transactions has been stable in recent years, with low arrears. In our opinion, this performance is underpinned by historical low interest rates and a robust rental market where first-time buyers are struggling to get on the housing ladder.

On the other hand, the outlook for the U.K. economy is weak, in our view. Unemployment remains stubbornly high and future movements in house prices are uncertain. The weighted-average indexed loan-to-value ratio in these transactions is high, as buy-to-let borrowers are generally highly leveraged. This means that these downside risks may lead to higher losses in the medium term.

These Paragon Mortgages transactions are U.K. buy-to-let transactions securitizing loans originated by Paragon Mortgages Ltd. and Mortgage Trust Ltd. The transactions closed between May 2004 and July 2007.

Our credit stability analysis indicates that the maximum projected deterioration that 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 (see "Methodology: Credit Stability Criteria," published on May 3, 2010).

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 Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard & Poor's 17g-7 Disclosure Reports included in this credit rating report are available at <http://standardandpoorsdisclosure-17g7.com>.

RELATED CRITERIA AND RESEARCH

- List Of Rating Actions In U.K. RMBS Transactions Paragon Mortgages Nos. 7 To 15, June 8, 2012
- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- U.K. RMBS Methodology And Assumptions, Dec. 9, 2011
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011
- Counterparty And Supporting Obligations Update, Jan. 13, 2011
- Counterparty And Supporting Obligations Methodology And Assumptions, Dec. 6, 2010
- Methodology: Credit Stability Criteria, May 3, 2010

**Additional Contact:**

Structured Finance Europe; [StructuredFinanceEurope@standardandpoors.com](mailto:StructuredFinanceEurope@standardandpoors.com)

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