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Ratings Lowered On U.K. RMBS Deal Paragon Personal And Auto Finance (No. 3)'s Class A And B Notes; C And D Affirmed

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OVERVIEW

- We have taken various rating actions based on the application of our U.K. RMBS and 2010 counterparty criteria.
- We have lowered our ratings on the class A1, A2, B1, and B2 notes. At the same time, we have affirmed our ratings on the class C1, C2, D1, and D2 notes.
- Paragon Personal And Auto Finance (No. 3) is backed by a pool of second-ranking mortgages, a pool of auto loans, unsecured personal loans, and unsecured retail credit loans. Paragon Personal Finance, Colonial Finance (UK), and Paragon Car Finance originated the collateral.

LONDON (Standard & Poor's) May 17, 2012--Standard & Poor's Ratings Services today lowered to 'AA (sf)' and removed from CreditWatch negative its ratings on Paragon Personal and Auto Finance (No. 3) PLC's class A1, A2, B1, and B2 residential mortgage-backed securities (RMBS) notes. At the same time, we affirmed our ratings on the class C1, C2, D1, and D2 notes (see list below).

Today's rating actions follow our credit and cash flow analysis of the most recent information that we have received for the transaction (as of January 2012). Our analysis reflects the application of our U.K. RMBS criteria (see " U.K. RMBS Methodology And Assumptions," published on Dec. 9, 2011). In addition, we have applied our 2010 counterparty criteria, given our downgrade of the transaction counterparties in 2011 (see "HSBC Bank PLC Long-Term

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Ratings Lowered To 'AA-' On Bank Criteria Change; Outlook Stable," published on Nov. 30, 2011, and "Counterparty And Supporting Obligations Methodology And Assumptions," published on Dec. 6, 2010).

We previously placed the class A1, A2, B1, and B2 notes on CreditWatch negative, following the lowering of our long-term counterparty rating on the swap counterparty, HSBC Bank PLC, to 'AA-' from 'AA' on Nov. 30, 2011 (see " Ratings On 305 Tranches In 120 European RMBS Transactions Placed On CreditWatch Negative After Bank Rating Actions," published on Dec. 21, 2011).

CREDIT AND CASH FLOW ANALYSIS

We based our analysis on a pool of secured loans, which comprise more than 95% of the total pool. The remaining 5% of the pool comprises unsecured personal loans, auto loans, and retail credit loans, which we scaled up to match the outstanding note balance. This assumption is more conservative than if we were to have applied our asset-backed securities (ABS) criteria to the aforementioned remaining 5% ABS portion of the transaction.

The available credit enhancement for all classes of notes has increased due to the deleveraging of the pool. The class A subordination has doubled since closing, the reserve fund is fully funded, there is no asset/liability mismatch, and the April 2010 interest payment date has passed. As a result, the necessary conditions have all been satisfied as per the transaction documents, and the transaction is currently paying pro rata. We note that there is considerable excess spread in the transaction.

In our analysis, our updated credit adjustments have led to a higher weighted-average foreclosure frequency due to the low seasoning credit. They have also led to a higher weighted-average loss severity due to an increase in our market-value decline assumptions. Overall, these factors have led to an increase the required credit enhancement available at each rating level, as per our 2011 U.K. RMBS criteria.

Delinquencies have increased slightly since our last review (see "Ratings On 305 Tranches In 120 European RMBS Transactions Placed On CreditWatch Negative After Bank Rating Actions," published on Dec. 21, 2011); arrears in the 90-360 days bucket have increased to 8.06% from 7.38%. However, overall delinquencies remain below the level of those that we have observed in other similar transactions. The transaction writes off 360+ day delinquencies, reducing the level of severe arrears. Over the past quarter, gross losses for the secured loans in the pool have decreased by 30 basis points to 0.53%.

COUNTERPARTY CRITERIA APPLICATION

The swap documentation for this transaction is not in line with our 2010 counterparty criteria (see "Counterparty And Supporting Obligations Methodology And Assumptions," published on Dec. 6, 2010). As per our criteria, the highest rating the notes can achieve is equal to the issuer credit rating (ICR) on the swap counterparty (HSBC Bank PLC; AA-/Stable/A-1+) plus one notch. Because our criteria do not acknowledge an unhedged currency exposure, we could not run our analysis for this transaction without the benefit of the swap in place.

Additionally, we consider that there is limited collection account risk in the transaction. For this reason, we have applied a credit loss for those classes of notes that we rate above the rating level of the collection account provider (National Westminster Bank PLC [NatWest]; A/Stable/A-1), in this case, the class A1, A2, B1, and B2 notes.

We have also applied a liquidity stress to those classes of notes that we rate equal to, or below the ICR on NatWest, i.e., the class C1, C2, D1, and D2 notes. We have therefore capped the ratings on these notes at 'A'.

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, are in line with our credit stability criteria (see "Methodology: Credit Stability Criteria," published on May 3, 2010).

RATING ACTIONS

Under our 2010 counterparty criteria, our ratings on the class A1, A2, B1, and B2 notes are linked to the ICR on the cross-currency swap provider, HSBC Bank, plus one notch. We have therefore lowered to 'AA (sf)' and removed from CreditWatch negative our ratings on these notes.

We have affirmed our 'A (sf)' ratings on the class C1 and C2 notes, following our cash flow analysis and the application of our 2010 counterparty criteria. We have based our affirmation on our analysis of the notes, having given full credit to the reserve fund, which is currently 9% of the closing pool balance. The reserve fund as a proportion of the closing pool balance amounts to a direct substantial exposure because it is greater than 5%. This caps our ratings on the notes at the level of the ICR on NatWest, as per our 2010 counterparty criteria.

We have also affirmed our 'BBB (sf)' ratings on the class D1 and D2 notes based on our credit and cash flow analysis, as well as our view of the recent stable performance of the transaction.

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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

- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Ratings On 305 Tranches In 120 European RMBS Transactions Placed On CreditWatch Negative After Bank Rating Actions,, Dec. 21, 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
- 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

RATINGS LIST

Class	Rating To	Rating From

Paragon Personal And Auto Finance (No. 3) PLC
€358 Million, £204.5 Million Asset-Backed Floating-Rate Notes

Ratings Lowered And Removed From CreditWatch Negative

Class	To	From
A1	AA (sf)	AA+ (sf)/Watch Neg
A2	AA (sf)	AA+ (sf)/Watch Neg
B1	AA (sf)	AA+ (sf)/Watch Neg
B2	AA (sf)	AA+ (sf)/Watch Neg

Ratings Affirmed

Class	Rating
C1	A (sf)
C2	A (sf)
D1	BBB (sf)
D2	BBB (sf)

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