

RatingsDirect®

Ratings Affirmed In U.K. RMBS Transactions Paragon Personal And Auto Finance (No. 3) And Paragon Secured Finance (No. 1)

Surveillance Credit Analyst:

Rory O'Faherty, London (44) 20-7176-3724; rory.ofaherty@standardandpoors.com

Secondary Contact:

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

Research Contributor:

Vedant Thakur, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

OVERVIEW

- Following our performance review, we have affirmed all of our ratings in Paragon Personal and Auto Finance (No. 3) and Paragon Secured Finance (No. 1).
- Paragon Personal and Auto Finance (No. 3) securitizes a pool of second-ranking mortgages, auto loans, unsecured personal loans, and unsecured retail credit loans. Paragon Personal Finance, Colonial Finance Ltd. (UK), and Paragon Car Finance originated the collateral.
- Paragon Secured Finance (No. 1) securitizes a pool of second-ranking British residential mortgages. Paragon Personal Finance originated the collateral.

LONDON (Standard & Poor's) July 22, 2013--Standard & Poor's Ratings Services today affirmed all of its credit ratings in Paragon Personal and Auto Finance (No. 3) PLC and Paragon Secured Finance (No. 1) PLC (see list below).

Today's rating actions follow our performance review, where we conducted our credit and cash flow analysis using the servicer's most recent information, and the application of our relevant criteria (see "Related Criteria" below).

Paragon Personal And Auto Finance (No. 3) PLC

Since our previous review of the transaction on July 4, 2012, total delinquencies have increased by 25 basis points (bps) to 13.98% of the pool's current balance (see "Ratings Raised On U.K. RMBS Transaction Paragon Personal and Auto Finance (No. 3)'s Class C Notes; A, B, And D Affirmed"). During this period, severe delinquencies (of 90 days or more) have increased to 8.71% from 7.92%. Delinquencies for 30 to 90 days have decreased to 5.27% from 5.81%, partially offsetting the increase in severe arrears.

The transaction's available credit enhancement has increased considerably since our last review due to the amortization rate, combined with a nonamortizing reserve fund, which has increased to 28.35% of the pool's current balance, from 22.39%. The class A notes' 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 transaction's documented conditions have all been satisfied and the transaction is now amortizing on a pro rata basis. We also note that the transaction is generating robust excess spread of about 3.86% in the last year.

We based our analysis on the pool of mortgage loans, which comprise more than 97% of the total pool. The remaining 3% comprises unsecured personal loans, auto loans, and retail credit loans. We have scaled up the mortgage loans balance by increasing the mortgage loan balance 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 3% ABS portion of the transaction. Due to the nature of the ABS assets, we expect the percentage of mortgage loans to continue to increase.

The transaction's swap documentation is not in line with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). Due to the transaction's dependence on the currency swap, our current counterparty criteria cap our ratings in the transaction at one notch above our long-term 'AA-' issuer credit rating (ICR) on HSBC Bank PLC as the swap counterparty.

Additionally, we consider the transaction to be exposed to commingling risk through the collection account provider, National Westminster Bank PLC (NatWest). We have therefore applied a credit loss to those classes of notes that we rate above our long-term 'A' ICR on NatWest; in this case, the class A, B, and C notes.

We have also applied a commingling liquidity stress to those classes of notes that we rate equal to, or below our ICR on NatWest, i.e., the class D notes. Our current counterparty criteria therefore cap at 'A' our ratings on these notes.

In our cash flow analysis, using the weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) figures below, all of the

notes pass our cash flow stresses at the currently assigned rating levels. They did not pass our cash flow stresses at higher rating levels. Following our cash flow analysis, we have affirmed our ratings on the class A1, A2, B1, B2, C1, C2, D1, and D2 notes.

| Rating level | WAFF (%) | WALS (%) |
|--------------|----------|----------|
| AAA | 49.21 | 95.81 |
| AA | 40.48 | 93.74 |
| A | 33.99 | 88.68 |
| BBB | 27.22 | 85.30 |
| BB | 18.78 | 82.50 |
| B | 15.43 | 79.56 |

Paragon Personal and Auto Finance (No. 3) securitizes a pool of second-ranking mortgages, auto loans, unsecured personal loans, and unsecured retail credit loans. Paragon Personal Finance Ltd., Colonial Finance Ltd. (UK), and Paragon Car Finance Ltd. originated the collateral.

Paragon Secured Finance (No. 1) PLC

Since our previous review of the transaction on June 7, 2012, severe delinquencies have increased by 1.08%, to 10.93% from 9.85% (see "Ratings Lowered In U.K. RMBS Transaction Paragon Secured Finance (No. 1)"). 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. residential mortgage-backed securities (RMBS) index. The transaction writes-off delinquencies over 360 days, reducing the level of severe arrears.

The transaction's available credit enhancement has increased because it has been deleveraging and because the reserve fund has increased to £15.9 million from £13.5 million. The transaction is currently amortizing sequentially, as not all of the documented pro rata triggers have been satisfied. We have considered this in our cash flow analysis. The reserve fund remains fully funded and the transaction has robust excess spread of about 6.08% in the last year.

Additionally, we consider the transaction to be exposed to commingling risk through the collection account provider, NatWest. We have therefore applied a credit loss to those classes of notes that we rate above our long-term 'A' ICR on NatWest; in this case, the class A notes only. We have also applied a liquidity stress to those classes of notes that we rate equal to, or below the ICR on NatWest; in this case, the class B and C notes.

Based on our credit analysis, in which we considered the transaction's credit quality (see the WAFF and WALS figures below), the available credit enhancement, excess spread in the transaction, and the prevailing macroeconomic conditions, we have affirmed our ratings on the class A, B, and C notes.

| Rating level | WAFF (%) | WALS (%) |
|--------------|----------|----------|
| AAA | 55.61 | 99.24 |
| AA | 46.60 | 97.72 |
| A | 39.61 | 94.19 |
| BBB | 31.91 | 91.76 |
| BB | 22.18 | 89.87 |
| B | 18.42 | 87.93 |

Paragon Secured Finance (No. 1) securitizes a pool of second-ranking British residential mortgages. Paragon Personal Finance Ltd. originated the collateral.

CREDIT STABILITY

Our credit stability analysis indicates that the maximum projected deterioration that we would expect at each rating level over one- and three-year periods, 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

Related Criteria

- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- U.K. RMBS Methodology And Assumptions, Dec. 9, 2011
- Credit Stability Criteria, May 3, 2010
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008

Related Research

- U.K. RMBS Index Report Q4 2012: Nonconforming Mortgage Arrears Fall To Their Lowest Level Since 2008, March 12, 2013
- Europe's Recession Is Still Dragging Down House Prices In Most Markets,

Jan. 17, 2013

- Ratings Raised On U.K. RMBS Transaction Paragon Personal and Auto Finance (No. 3)'s Class C Notes; A, B, And D Affirmed, July 4, 2012
- Ratings Lowered In U.K. RMBS Transaction Paragon Secured Finance (No. 1), June 4, 2012
- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011

RATINGS LIST

Ratings Affirmed

| Class | Rating |
|-------|--------|
|-------|--------|

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

| | |
|----|----------|
| A1 | AA (sf) |
| A2 | AA (sf) |
| B1 | AA (sf) |
| B2 | AA (sf) |
| C1 | AA- (sf) |
| C2 | AA- (sf) |
| D1 | BBB (sf) |
| D2 | BBB (sf) |

Paragon Secured Finance (No. 1) PLC
£300 Million Mortgage-Backed Floating-Rate Notes

| | |
|---|-----------|
| A | AA+ (sf) |
| B | BBB- (sf) |
| C | B (sf) |

Additional Contact:

Structured Finance Europe; StructuredFinanceEurope@standardandpoors.com

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.