

Rating Action: Moody's confirms the ratings in Paragon Mortgages (No. 12) PLC

Global Credit Research - 03 Sep 2014

London, 03 September 2014 -- Moody's Investors Service ("Moody's") has today confirmed the ratings in Paragon Mortgages (No. 12) PLC following amendments to the cross-currency swap documentation on 27 August 2014.

Today's rating actions conclude the review of the ratings in this transaction, which Moody's placed on review for downgrade in relation to exposure to Barclays Bank PLC ("Barclays") as cross-currency swap counterparty on 14 November 2013 following the introduction of the rating agency's updated approach to assessing swap counterparty linkage in structured finance transactions (https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS_SF344857). Moody's then maintained the ratings on review for downgrade on 6 May 2014 pending final execution of Barclays' restructuring proposal of the cross-currency swaps.

For a detailed list of affected ratings, see towards the end of the press release before the regulatory disclosures section.

RATINGS RATIONALE

Today's rating actions reflect the impact on the notes of their exposure to Barclays (A2/P-1) as cross-currency swap counterparty, as well as the offsetting impact of the amendments made to the swap documentation, which sufficiently mitigate the swap counterparty risk in the transaction. Moody's has received executed and amended swap documentation whereby (i) Moody's First Trigger Required Rating is lowered to A3 from A2 and Moody's Second Trigger Required Rating is lowered to Baa1 from A3; and (ii) upon trigger breach Barclays would have to post collateral in collateral in accordance with enhanced formulas for cross-currency swaps attached to Class A notes and original formulas for cross-currency swaps attached Class B and Class C notes; in each case as defined in our Approach to Assessing Swap Counterparties in Structured Finance Cash Flow Transactions published in November 2013. The amended swap agreements are substantially in line with our swap framework.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING:

Upward pressure on the ratings could result from (1) better-than-expected performance of the underlying assets; (2) deleveraging in the capital structure; and (3) a decline in counterparty risk or country risk.

Downward pressure on the ratings could result from (1) worse-than-expected performance of the underlying collateral; (2) deterioration in the notes available credit enhancement; and (3) deterioration in the counterparties' credit quality or a rise in country risk.

The principal methodology used in this rating was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in March 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

LIST OF AFFECTED RATINGS

Issuer: Paragon Mortgages (No. 12) PLC

....US\$1500M A1 Notes, Confirmed at Aaa (sf); previously on May 6, 2014 Aaa (sf) Remained On Review for Possible Downgrade

....GBP145M A2a Notes, Confirmed at Aaa (sf); previously on May 6, 2014 Aaa (sf) Remained On Review for Possible Downgrade

....EUR245M A2b Notes, Confirmed at Aaa (sf); previously on May 6, 2014 Aaa (sf) Remained On Review for Possible Downgrade

....US\$311M A2c Notes, Confirmed at Aaa (sf); previously on May 6, 2014 Aaa (sf) Remained On Review for Possible Downgrade

...GBP25M B1a Notes, Confirmed at Aa2 (sf); previously on May 6, 2014 Aa2 (sf) Remained On Review for Possible Downgrade

...EUR126M B1b Notes, Confirmed at Aa2 (sf); previously on May 6, 2014 Aa2 (sf) Remained On Review for Possible Downgrade

...GBP17M C1a Notes, Confirmed at A2 (sf); previously on May 6, 2014 A2 (sf) Remained On Review for Possible Downgrade

...EUR106M C1b Notes, Confirmed at A2 (sf); previously on May 6, 2014 A2 (sf) Remained On Review for Possible Downgrade

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of this transaction in the past six months.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

As the section on loss and cash flow analysis describes, Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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