

Rating Action: Moody's downgrades 13 notes in Paragon Mortgages (No. 9) PLC and Paragon Mortgages (No. 11) PLC

Global Credit Research - 23 Dec 2014

London, 23 December 2014 -- Moody's Investors Service has today downgraded the ratings on a total of 13 notes in 2 UK buy-to-let residential mortgage backed securities transactions, Paragon Mortgages (No. 9) PLC (Paragon 9) and Paragon Mortgages (No. 11) PLC (Paragon 11). Today's downgrades conclude the rating review due to strong linkage of the notes to Royal Bank of Scotland plc (RBS, Baa1/P-2) and Barclays Bank PLC (Barclays, A2/P-1) acting as cross currency swap counterparties, in Paragon 9 and Paragon 11, respectively.

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

RATINGS RATIONALE

Both transactions have very high exposure to the currency swap counterparties. Moody's applied the approach described in "Approach to Assessing Swap Counterparties in Structured Finance Cash Flow Transactions", published on 12 November 2013, to assess the impact of the strong swap exposure on the notes' ratings.

-- Paragon 9

RBS, currently rated at Baa1, is the currency swap provider to the transaction. Following the rating downgrade from A3 to Baa1 on 13 March 2014, RBS has also breached the swap counterparty transfer rating trigger. The transaction's total exposure to the currency swap is 54% of the transaction's total rated notes. Since the last rating action on 29 Jul 2014 when all notes ratings were placed on review for downgrade, RBS has not implemented remedial measures to mitigate the swap counterparty risks. As a result, Moody's downgrades Classes A, B, and C notes' ratings to Aa2(sf), Baa2(sf), and Baa3(sf) respectively.

-- Paragon 11

Barclays, currently rated at A2, is the currency swap provider to the transaction. Although Barclays has not breached any swap counterparty rating triggers, the transaction has a very high exposure to the currency swap, at 84% of the total rated notes. Prior to the last rating action on the notes on 6 May 2014, Barclays indicated its intention to restructure the currency swaps to mitigate the transaction's currency swap counterparty risk exposure as assessed by Moody's methodology. Since then, Barclays has not implemented the proposed restructuring. As a result, Moody's downgrades long-term ratings on Classes A, B, and C notes' ratings to Aa1(sf), Aa3(sf), and A3(sf) respectively.

The principal methodology used in these ratings 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.

Factors that would lead to an upgrade or downgrade of the ratings:

Upward pressure on the ratings could result from (1) implementation of remedial actions that could fully mitigate the swap counterparty risk ; and (2) a decline in counterparty risk.

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

List of Affected Ratings:

Issuer: Paragon Mortgages (No. 9) PLC

....GBP 346M Class Aa Notes, Downgraded to Aa2 (sf); previously on Jul 29, 2014 Aa1 (sf) Placed Under Review for Possible Downgrade

....EUR 355M Class Ab Notes, Downgraded to Aa2 (sf); previously on Jul 29, 2014 Aa1 (sf) Placed Under Review

for Possible Downgrade

...US\$ 60M Class Ac Notes, Downgraded to Aa2 (sf); previously on Jul 29, 2014 Aa1 (sf) Placed Under Review for Possible Downgrade

...GBP 7M Class Ba Notes, Downgraded to Baa2 (sf); previously on Jul 29, 2014 A1 (sf) Placed Under Review for Possible Downgrade

...EUR 29.5M Class Bb Notes, Downgraded to Baa2 (sf); previously on Jul 29, 2014 A1 (sf) Placed Under Review for Possible Downgrade

...GBP 3M Class Ca Notes, Downgraded to Baa3 (sf); previously on Jul 29, 2014 A2 (sf) Placed Under Review for Possible Downgrade

...EUR 66M Class Cb Notes, Downgraded to Baa3 (sf); previously on Jul 29, 2014 A2 (sf) Placed Under Review for Possible Downgrade

Issuer: Paragon Mortgages (No. 11) PLC

...US\$ 985M Class A1 Notes, Downgraded to Aa1 (sf); previously on May 6, 2014 Aaa (sf) Remained On Review for Possible Downgrade

...GBP 149.5M Class A2a Notes, Downgraded to Aa1 (sf); previously on May 6, 2014 Aaa (sf) Remained On Review for Possible Downgrade

...EUR 219.7M Class A2b Notes, Downgraded to Aa1 (sf); previously on May 6, 2014 Aaa (sf) Remained On Review for Possible Downgrade

...GBP 16M Class B1a Notes, Downgraded to Aa3 (sf); previously on May 6, 2014 Aa2 (sf) Remained On Review for Possible Downgrade

...EUR 82.4M Class B1b Notes, Downgraded to Aa3 (sf); previously on May 6, 2014 Aa2 (sf) Remained On Review for Possible Downgrade

...EUR 87.5M Class C1b Notes, Downgraded to A3 (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 these transactions 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.

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.

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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.

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