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Various Rating Actions Taken In U.K. RMBS Transaction Paragon Mortgages (No. 10) Following Review

Surveillance Credit Analyst:

Soledad Martinez-Tercero, Madrid (34) 91-389-6954; soledad.martinez-tercero@standardandpoors.com

Research Contributor:

Vedant Thakur, Mumbai (91) 22-4040-1930; vedant.thakur@standardandpoors.com

OVERVIEW

- We have reviewed Paragon Mortgages (No. 10) under our current counterparty criteria and U.K. RMBS criteria, and have performed our surveillance credit and cash flow analysis.
- Under our current counterparty criteria, the maximum potential rating on this transaction is linked to our long-term issuer credit rating (ICR) on the cross currency swap provider (HSBC Bank), plus one notch. We had not reflected our Feb. 3, 2015 CreditWatch negative placement of our long-term ICR on HSBC Bank on our ratings on the class A2a and A2b notes. We are today correcting this error by placing on CreditWatch negative our 'AA (sf)' ratings on the class A2a and A2b notes.
- At the same time, we have raised our ratings on the class C1a and C1b notes, and have affirmed our ratings on the class B1a and B1b notes. We have kept our rating on the class A1 notes on CreditWatch negative.
- The transaction, which closed in November 2005, is backed by a pool of buy-to-let loans originated by Paragon Mortgages and Mortgage Trust.

MADRID (Standard & Poor's) April 29, 2015--Standard & Poor's Ratings Services today took various credit rating actions in Paragon Mortgages (No. 10) PLC.

Specifically, we have:

- Placed on CreditWatch negative our 'AA (sf)' ratings on the class A2a and A2b notes;

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- Affirmed our 'AA- (sf)' ratings on the class B1a and B1b notes;
- Kept our 'A-1 (sf)' short-term rating on the class A1 notes on CreditWatch negative; and
- Raised to 'A (sf)' from 'A- (sf)' our ratings on the class C1a and C1b notes (see list below).

Today's rating actions follow our credit and cash flow surveillance analysis under our U.K. residential mortgage-backed securities (RMBS) criteria and our current counterparty criteria (see "U.K. RMBS Methodology And Assumptions," published on Dec. 9, 2011), and "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013.

The portfolio's collateral performance has been stable throughout the financial crisis and recently, with low arrears. In our opinion, historically low interest rates and a robust rental market where first-time buyers are struggling to purchase homes have contributed to this stable performance. Arrears are below our U.K. buy-to-let RMBS index, with arrears of more than 90 days at 0.20%, compared with our index level of 5.00% (see "U.K. RMBS Index Report Q3 2014: Nonconforming Arrears Fall To The Lowest Level Since 2008 As The Economy Strengthens," published on Nov. 24, 2014).

Taking into account the U.K.'s improving economy, and the high proportion of interest-only loans backing the transaction, the asset principal paydown has remained low. Therefore, the pool's characteristics have not changed significantly since our June 8, 2012 review (see "Ratings Lowered Or Affirmed On Various Classes Of U.K. RMBS Notes In Paragon Mortgages Nos. 7 To 15"). However, our credit analysis benefited from the transaction's weighted-average seasoning, which increased to 114 months in February 2015 from 79 months in October 2011.

All of the Paragon Mortgages transactions that we rate include some classes of notes that are denominated in euros or U.S. dollars. In Paragon Mortgages (No. 10), the currency swap documentation does not comply with our current counterparty criteria. Therefore, under our criteria, the maximum potential rating is linked to the long-term ICR on the cross currency swap provider (HSBC Bank PLC; AA-/Watch Neg/A-1+), plus one notch. We had not reflected our Feb. 3, 2015 CreditWatch negative placement of our long-term ICR on HSBC Bank on our ratings on the class A2a and A2b notes. We are today correcting this error by placing on CreditWatch negative our 'AA (sf)' ratings on the class A2a and A2b notes.

In addition, we have kept on CreditWatch negative our 'A-1 (sf)' short-term rating on the class A1 notes. Under our current counterparty criteria, this rating is linked to our short-term rating on Barclays Bank PLC as the conditional note purchaser (see "377 European Structured Finance Ratings Placed On CreditWatch Negative Following Bank Rating Actions," published on Feb. 18, 2015).

We have raised to 'A (sf)' from 'A- (sf)' our ratings on the class C1a and C1b notes as our credit and cash flow results are commensurate with higher ratings

than those currently assigned.

We have affirmed our 'AA- (sf)' ratings on the class B1a and B1b notes as we consider these rating levels to be commensurate with our credit and cash flow results, following the application of our U.K. RMBS criteria.

Paragon Mortgages (No. 10) closed in November 2005, and is backed by a pool of buy-to-let loans originated by Paragon Mortgages Ltd. and Mortgage Trust Ltd.

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 Report included in this credit rating report is available at <http://standardandpoorsdisclosure-17g7.com>

RELATED CRITERIA AND RESEARCH

Related Criteria

- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, Sept. 19, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- U.K. RMBS Methodology And Assumptions, Dec. 9, 2011
- Methodology: Credit Stability Criteria, May. 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

Related Research

- 377 European Structured Finance Ratings Placed On CreditWatch Negative Following Bank Rating Actions, Feb. 18, 2015
- S&P Takes Various Rating Actions On Certain U.K., German, Austrian, And Swiss Banks Following Government Support Review, Feb. 3, 2015
- U.K. RMBS Index Report Q3 2014: Nonconforming Arrears Fall To The Lowest Level Since 2008 As The Economy Strengthens, Nov. 24, 2014
- Low Interest Rates Are Underpinning Europe's House Price Recovery, July 28, 2014
- European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors, July 8, 2014

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- Global Structured Finance Scenario And Sensitivity Analysis:
Understanding The Effects Of Macroeconomic Factors On Credit Quality,
July 2, 2014
- Ratings Lowered Or Affirmed On Various Classes Of U.K. RMBS Notes In
Paragon Mortgages Nos. 7 To 15, June 8, 2012

RATINGS LIST

Class	To	Rating	From
Paragon Mortgages (No. 10) PLC			
€269 Million, £187.5 Million, \$1.1 Billion Mortgage-Backed Floating-Rate Notes			

Ratings Placed On CreditWatch Negative

A2a	AA (sf)/Watch Neg	AA (sf)
A2b	AA (sf)/Watch Neg	AA (sf)

Rating Kept On CreditWatch Negative

A1	A-1 (sf)/Watch Neg
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Ratings Raised

C1a	A (sf)	A- (sf)
C1b	A (sf)	A- (sf)

Ratings Affirmed

B1a	AA- (sf)
B1b	AA- (sf)

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Standard & Poor's Ratings Services was not provided with or did not take into

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account an independent third party collateral assessment on the quality of the information on the underlying assets.

Additional Contact:

Structured Finance Europe; StructuredFinanceEurope@standardandpoors.com

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