



Tagging Info

**Fitch Upgrades 7 Tranches of Paragon RMBS Series; Affirms 60 Others** Ratings

Endorsement Policy

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**Link to Fitch Ratings' Report:** Paragon 2015 Rating Action Report

Fitch Ratings-London-18 March 2015: Fitch Ratings has upgraded seven tranches and one currency swap obligation of the Paragon RMBS series and affirmed 60 tranches and seven currency swap obligations.

The series is backed by loans originated by Paragon Mortgage Limited, Paragon Mortgages (2010) Limited, Mortgage Trust Limited and Paragon Personal Finance Limited, all subsidiaries of The Paragon Group. It comprises 12 Paragon buy-to-let (BTL) deals and one non-conforming RMBS transaction, Paragon Secured Finance (PSF1), which is fully backed by second-charge loans. A full list of rating actions is available at [www.fitchratings.com](http://www.fitchratings.com) or by clicking the link above.

**KEY RATING DRIVERS****Continued Stable Arrears Performance**

Loans in three-month plus arrears have remained stable in all 12 BTL transactions. As of the most recent interest payment dates, loans in arrears by more than three months ranged between 0.1% (Paragon 8) and 0.4% (Paragon 13) of the current portfolio balances for the Paragon transactions that closed prior to 2007. No arrears greater than three months have been reported for Paragon 16, 17, 18 and 19 while the most recently closed Paragon 20 has registered a limited 0.05% of loans in late stage arrears.

Given the BTL nature of the underlying pools, borrowers in arrears by more than three months are predominantly managed by Paragon via its receiver of rent policy, where the full rental stream it receives from properties is diverted to Paragon, as administrator, towards clearing arrears. Fitch acknowledges that Paragon's extensive use of its receiver of rent policy, currently ranging between 0% (Paragon 20) to 3.4% (Paragon 10) of the respective portfolios, has contributed towards the low level of arrears across the series. As performing loans under this policy are excluded from published arrears figures, the agency has increased its default probability assumptions on these performing loans to reflect the greater likelihood of such borrowers falling back into arrears, particularly in an increasing interest rate environment.

**Sufficient Credit Enhancement (CE) Levels**

The steady build-up in CE, combined with the robust performance to date, has resulted in the upgrade of the class B notes in Paragon 11, 12 and of the class B and C notes of Paragon 15.

The low levels of cumulative losses across these transactions between 0% and 0.74% (Paragon 15) of the original principal balances and the evident effectiveness of the receiver of rent mechanism support our expectation of a continuation of the stable performance trend.

**Increased Quick Sale Adjustment (QSA)**

Based on the analysis of loan level data of sold properties in possession previously provided by Paragon, the agency has applied an increased quick sale adjustment of an average 32.5% compared with the standard criteria assumption of 30%. This has resulted in lower recovery rate assumptions being applied across the

Paragon BTL RMBS series.

Paragon Secured Finance 1

The affirmation of all notes of PSF1 is based on the stable performance over the past year. As of January 2015, loans in arrears by more than three months stood at 9.2% of the current outstanding portfolio, compared with 10.9% a year ago.

Additionally, the transaction's structure allows for the full provisioning of defaulted loans (defined as loans in arrears by more than 12 months). At present, robust levels of annualised excess spread, standing at 5.3% of the outstanding collateral balance, have enabled the issuer to comfortably clear defaults, maintaining the reserve fund at its target level of GBP15.9m.

PSF1's documentation states that once the transaction is able to pay pro-rata, the ratio between the outstanding balance on class B and C notes over the total outstanding notes' balance must be maintained as close as possible to 1:2.169. For this reason, following the decline in three-months plus arrears below the pro-rata trigger threshold of 10%, only the class B and C notes have been amortising.

Fitch has modelled the credit enhancement evolution of all classes in its analysis. Class A is expected to begin receiving principal again in approximately three payment dates' time. The reduced class A credit enhancement caused by the amortisation of the mezzanine and junior notes remains sufficient for the notes to withstand their current rating stresses.

#### RATING SENSITIVITIES

A moderate rise in interest rates could lead to a rise in loans in arrears greater than three months and potentially an increase in defaults.

The credit enhancement for the junior notes of Paragon 7 to 15 is provided solely by the reserve fund, which is held in the account bank Barclays (A/Stable/F1). As such, the ratings on these notes are linked to the ratings of Barclays. Any changes in the issuer default rating of the bank may result in rating actions on these notes.

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

#### Sources of Information:

Investor and Servicer Reports, as well as loan-by-loan level data provided by the Paragon group.

Fitch's analysis of Representations, Warranties & Enforcement Mechanisms (RWEs) for transactions rated on

or after 26 September 2011, can be found in the appendixes of new issue reports for the respective transaction. In addition see "Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions" dated 17 April 2012 at [www.fitchratings.com](http://www.fitchratings.com). A comparison of the transaction's RW&Es to those typical for that asset class is available by accessing the presale or new issue reports.

Applicable criteria, 'Global Structured Finance Rating Criteria' dated 20 May 2014, 'Rating Criteria for Structured Finance Servicers' dated 30 January 2014, 'Counterparty Criteria for Structured Finance and Covered Bonds' dated 13 May 2014, 'Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum' dated 13 May 2014, 'Criteria for Interest Rate Stresses in Structured Finance Transactions' dated 19 December 2014, 'Criteria Addendum - UK - Residential Mortgage Loss and Cash Flow Assumptions' dated 30 May 2014, 'EMEA Residential Mortgage Loss Criteria' dated 28 May 2014, 'EMEA RMBS Cash Flow Analysis Criteria' dated 28 May 2014, 'EMEA RMBS Master Rating Criteria' dated 28 May 2014 and 'Global Criteria for Lenders' Mortgage Insurance in RMBS' dated 23 June 2014 are available at [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

Global Structured Finance Rating Criteria  
Rating Criteria for Structured Finance Servicers  
Counterparty Criteria for Structured Finance and Covered Bonds  
Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum  
Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds  
Criteria Addendum: UK - Residential Mortgage Loss and Cash Flow Assumptions  
EMEA Residential Mortgage Loss Criteria  
EMEA RMBS Cash Flow Analysis Criteria  
EMEA RMBS Master Rating Criteria  
Global Criteria for Lenders' Mortgage Insurance in RMBS

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