

Rating Action: Moody's upgrades 8 notes in 3 UK RMBS BTL transactions

Global Credit Research - 21 Oct 2015

London, 21 October 2015 -- Moody's Investors Service has today upgraded the ratings of 8 notes in Auburn Securities 4 PLC, First Flexible No. 5 PLC and Paragon Mortgages (No.14) PLC. Additionally Moody's Investors Service has affirmed the ratings on 9 notes in these three transactions.

See towards the end of the ratings rationale section of this press release for a detailed list of affected ratings.

RATINGS RATIONALE

Today's upgrades reflect (1) deleveraging of the transactions (2) update in collateral assumptions. The rating affirmations are driven by sufficient credit enhancement.

--INCREASE IN AVAILABLE CREDIT ENHANCEMENT

All notes have benefited from an increase in available credit enhancement since closing.

-- REVISION OF KEY COLLATERAL ASSUMPTIONS

Moody's has reassessed its lifetime loss expectation on First Flexible No. 5 PLC and has reduced the portfolio expected loss assumption to 0.35% of the original pool balance, from the previous level of 0.56%.

Expected Loss assumption remains unchanged for Auburn Securities 4 PLC and Paragon Mortgages (No.14) PLC. The performance of the underlying asset portfolios remain in line with Moody's assumptions.

Moody's has also reduced the MILAN CE as follows, Auburn Securities 4 PLC from 15% to 10%, First Flexible No.5 PLC from 12% to 10% and Paragon Mortgages (No.14) PLC from 17% to 14%.

-- CONTINUED EXPOSURE TO PAYMENT DISRUPTION & PENSION CLAIM RISKS

Moody's capped the notes in one transaction with substantial credit enhancement, First Flexible No. 5 PLC, to Aa1(sf) due to continued exposure to payment disruption and pension claim risks in combination with limited severity of losses. In Moody's view, the structural features available in these transactions do not sufficiently mitigate the chance of payment disruption risk or the pension claims occurring. However, the available credit enhancement mitigates the severity of possible losses.

At the same time, Moody's capped the notes A1, A2a, A2b and A2c in one transaction, Paragon Mortgages (No. 14) PLC, to Aa3(sf), in consideration of its continued exposure to the payment disruption and legal risks in combination with high severity of losses. In Moody's view, the structural features of Paragon Mortgages (No. 14) PLC may lead to substantial losses for noteholders should the payment disruption or pension claim risks materialize. In particular, 85% of the notes are denominated in currencies (EUR, USD) different from the underlying assets, while the credit enhancement under the senior notes is substantially lower than the currency exposure at 25%. Termination of the cross-currency swap, should it not be replaced, could expose Paragon Mortgages (No.14) PLC to substantial currency rate volatility.

-- OPERATIONAL RISK

The servicer and cash manager for Auburn Securities 4 PLC is Capital Home Loans Limited. Permanent TSB P.L.C. acts as the back-up servicer and there is no back-up facilitator in place. Despite fully funded reserve funds, Moody's recognizes that the strong level of linkage between the counterparties and the lack of a third party increases the likelihood of missed payments if there were to be a servicer disruption. To reflect this operational risk, Moody's has maintained its rating cap of A2 (sf) on the notes issued by Auburn Securities 4 PLC.

Principal methodology:

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in January 2015. Please see the Credit Policy page on www.moody.com for a copy of this

methodology.

The analysis undertaken by Moody's at the initial assignment of ratings for RMBS securities may focus on aspects that become less relevant or typically remain unchanged during the surveillance stage. Please see Moody's Approach to Rating RMBS Using the MILAN Framework for further information on Moody's analysis at the initial rating assignment and the on-going surveillance in RMBS.

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

Factors or circumstances that could lead to an upgrade of the ratings include (1) better-than-expected performance of the underlying collateral; (2) deleveraging of the capital structure; and (3) improvements in the credit quality of the transaction counterparties (4) a decline in counterparty risk.

Factors or circumstances that could lead to a downgrade of the ratings include (1) a worse than expected performance of the underlying collateral (2) deterioration in the notes' available credit enhancement (3) deterioration in the credit quality of the transaction counterparties (4) an increase in counterparty risk.

LIST OF AFFECTED RATINGS

Issuer: Auburn Securities 4 PLC

...GBP597.5M A2 Notes, Affirmed A2 (sf); previously on Jan 27, 2014 Affirmed A2 (sf)

...GBP40M B Notes, Affirmed A2 (sf); previously on Jan 27, 2014 Affirmed A2 (sf)

...GBP40M C Notes, Upgraded to A2 (sf); previously on Jan 27, 2014 Affirmed A3 (sf)

...GBP25M D Notes, Affirmed Baa3 (sf); previously on Jan 27, 2014 Affirmed Baa3 (sf)

...GBP12.5M E Notes, Upgraded to Ba1 (sf); previously on Jan 27, 2014 Confirmed at Ba2 (sf)

...GBP15M M Notes, Affirmed A2 (sf); previously on Jan 27, 2014 Affirmed A2 (sf)

Issuer: First Flexible No. 5 PLC

...GBP465M A Notes, Affirmed Aa1 (sf); previously on Feb 21, 2013 Downgraded to Aa1 (sf)

...GBP12.5M B Notes, Upgraded to Aa1 (sf); previously on Jul 15, 2011 Upgraded to A1 (sf)

...GBP22.5M M Notes, Upgraded to Aa1 (sf); previously on Jul 15, 2011 Upgraded to Aa2 (sf)

Issuer: Paragon Mortgages (No. 14) PLC

...US\$1500M A1 Notes, Affirmed Aa3 (sf); previously on Feb 21, 2013 Downgraded to Aa3 (sf)

...GBP125M A2a Notes, Affirmed Aa3 (sf); previously on Feb 21, 2013 Downgraded to Aa3 (sf)

...EUR246M A2b Notes, Affirmed Aa3 (sf); previously on Feb 21, 2013 Downgraded to Aa3 (sf)

...US\$400M A2c Notes, Affirmed Aa3 (sf); previously on Feb 21, 2013 Downgraded to Aa3 (sf)

...GBP51.9M B1a Notes, Upgraded to Aa3 (sf); previously on Feb 21, 2013 Downgraded to A1 (sf)

...EUR88.8M B1b Notes, Upgraded to Aa3 (sf); previously on Feb 21, 2013 Downgraded to A1 (sf)

...GBP20M C1a Notes, Upgraded to A1 (sf); previously on Feb 21, 2013 Downgraded to A3 (sf)

...EUR135.5M C1b Notes, Upgraded to A1 (sf); previously on Feb 21, 2013 Downgraded to A3 (sf)

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.

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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