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Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 7, 8, And 9 Following Review

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OVERVIEW

- We have reviewed Paragon Mortgages 7, 8, and 9 under our current counterparty criteria and U.K. RMBS criteria, and have performed our credit and cash flow analysis.
- Following our review, we have taken various rating actions in each transaction.
- Paragon 7, 8, and 9 are U.K. buy-to-let transactions securitizing loans that Paragon Mortgages and Mortgage Trust originated. The transactions closed in May 2004, October 2004, and July 2005, respectively.

LONDON (Standard & Poor's) June 25, 2015--Standard & Poor's Rating Services today took various credit rating actions in Paragon Mortgages (No. 7) PLC (Paragon 7), Paragon Mortgages (No. 8) PLC (Paragon 8), and Paragon Mortgages (No. 9) PLC (Paragon 9).

Specifically, we have:

- Lowered and removed from CreditWatch negative our ratings on Paragon 7's class A1 and B1 notes, and Paragon 9's class A and B notes;
- Affirmed and removed from CreditWatch negative our ratings on Paragon 8's class A2 notes; and
- Affirmed our ratings on Paragon 8's class B1 notes and Paragon 9's class C notes (see list below).

Today's rating actions follow our credit and cash flow analysis of the most recent transaction information that we have received. We have also applied our current counterparty criteria and our U.K. residential mortgage-backed securities (RMBS) criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013, and "U.K. RMBS Methodology And Assumptions," published on Dec. 9, 2011).

The portfolios' collateral performance has been stable throughout the financial crisis, as have delinquencies since our June 8, 2012 review of these transactions (see "Ratings Lowered Or Affirmed On Various Classes Of U.K. RMBS Notes In Paragon Mortgages Nos. 7 To 15"). 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 in all three transactions are below our U.K. buy-to-let RMBS index, with arrears of more than 90 days, including repossessions, at 0.26% for Paragon 7, 0.10% for Paragon 8, and 0.44% in Paragon 9, compared with our index level of 4.75% (see "U.K. RMBS Index Report Q4 2014/Q1 2015: Collateral Performance Remains Stable As Economic Growth Slows," published on May 29, 2015).

Taking into account the U.K.'s current macroeconomic environment and the high proportion of interest-only loans backing the transactions, the asset principal paydowns have remained low. Therefore, the pools' characteristics have not changed significantly since our June 2012 review. However, our credit analysis benefited from the increase in transactions' weighted-average seasoning, which in April 2015 was 139.2 months in Paragon 7, 142 months in Paragon 8, and 134 months in Paragon 9.

Each of these three transactions includes some classes of notes that are denominated in euros or U.S. dollars. In Paragon 7, 8, and 9, the currency swap documentation does not fully comply with our current counterparty criteria. Therefore, in accordance with our current counterparty criteria, the maximum potential rating on the notes in each transaction is equal to our long-term issuer credit rating (ICR) plus one notch on the swap provider. In Paragon 7 and 9 the swap provider is The Royal Bank of Scotland PLC (BBB+/Stable/A-2) and in Paragon 8 the swap provider is HSBC Bank PLC (AA-/Stable/A-1).

We placed our ratings on Paragon 8's class A2 notes on CreditWatch negative on Feb. 18, 2015, following our Feb. 3, 2015 CreditWatch negative placement of our long-term ICR on HSBC Bank (see "377 European Structured Finance Ratings Placed On CreditWatch Negative Following Bank Rating Actions," published on Feb. 18, 2015, and "S&P Takes Various Rating Actions On Certain U.K., German, Austrian, And Swiss Banks Following Government Support Review," published on Feb. 3, 2017. On June 9, 2015, we affirmed and removed from CreditWatch negative our long-term ICR on HSBC Bank (see "S&P Takes Various Rating Actions On Certain U.K. And German Banks Following Government Support And ALAC Review") . Under our current counterparty criteria, we have therefore affirmed and removed from CreditWatch negative our 'AA (sf)' ratings on the class A2 notes. We have affirmed our 'A- (sf)' ratings on Paragon 8's class B1 notes based on

the results of our credit and cash flow analysis.

We placed our ratings on Paragon 7's class A1 and B1 notes, and Paragon 9's class A and B notes on CreditWatch negative on Feb. 18, 2015, following our Feb. 3, 2015 CreditWatch negative placement of our long-term ICR on The Royal Bank of Scotland. On June 9, 2015, we lowered and removed from CreditWatch negative our long-term ICR on The Royal Bank of Scotland. Under our current counterparty criteria, we have therefore lowered to 'A- (sf)' from 'A (sf)' and removed from CreditWatch negative our ratings on these classes of notes.

Following our credit and cash flow analysis and the application of our U.K. RMBS criteria, we considered that the available credit enhancement for Paragon 8's class B1 notes and Paragon 9's class C notes is commensurate with their current rating levels. We have therefore affirmed our 'A- (sf)' ratings on Paragon 8's class B1 notes and our 'BBB+ (sf)' ratings on Paragon 9's class C notes.

The transaction account provider in each of these transactions is Barclays Bank PLC (A-/Stable/A-2). Following our June 9, 2015, downgrade of Barclays Bank, it breached the documented 'A-1' replacement trigger. Currently, we are still within the replacement period and we have received a provisional proposal from Paragon Group regarding remedial action, which we are assessing.

Paragon 7, 8, and 9 are U.K. buy-to-let transactions securitizing loans that Paragon Mortgages Ltd. and Mortgage Trust Ltd. originated. The transactions closed in May 2004, October 2004, and July 2005, respectively.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Updated Outlook Assumptions For The U.K. Residential Mortgage Market, Aug. 17, 2012
- Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- 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

Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 7, 8, And 9 Following Review

- S&P Takes Various Rating Actions On Certain U.K. And German Banks Following Government Support And ALAC Review, June 9, 2015
- U.K. RMBS Index Report Q4 2014/Q1 2015: Collateral Performance Remains Stable As Economic Growth Slows, May 29, 2015
- The Eurozone Is Looking Up, For Now, March 31, 2015
- 377 European Structured Finance Ratings Placed On CreditWatch Negative Following Bank Rating Actions, Feb. 18, 2015
- Low Interest Rates Are Only Slowly Reviving Europe's Housing Markets, Feb. 5, 2015
- S&P Takes Various Rating Actions On Certain U.K., German, Austrian, And Swiss Banks Following Government Support Review, Feb. 3, 2015
- Standard & Poor's Ratings Definitions, Nov. 20, 2014
- European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors, July 8, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014
- Updated Outlook Assumptions For The U.K. Residential Mortgage Market, Aug. 17, 2012
- 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	Rating	
	To	From

Paragon Mortgages (No. 7) PLC

€565 Million, £220 Million, \$532.5 Million Mortgage-Backed Floating-Rate Notes

Ratings Lowered And Removed From CreditWatch Negative

A1a	A- (sf)	A (sf)/Watch Neg
A1b	A- (sf)	A (sf)/Watch Neg
A1c	A- (sf)	A (sf)/Watch Neg
B1a	A- (sf)	A (sf)/Watch Neg
B1b	A- (sf)	A (sf)/Watch Neg

Paragon Mortgages (No. 8) PLC

€833 Million, £420 Million Mortgage-Backed Floating-Rate Notes

Ratings Affirmed And Removed From CreditWatch Negative

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

Ratings Affirmed

B1a	A- (sf)
B1b	A- (sf)

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Paragon Mortgages (No. 9) PLC

€450.5 Million, £356 Million, \$60 Million Mortgage-Backed Floating-Rate Notes

Ratings Lowered And Removed From CreditWatch Negative

Aa	A- (sf)	A (sf)/Watch Neg
Ab	A- (sf)	A (sf)/Watch Neg
Ac	A- (sf)	A (sf)/Watch Neg
Ba	A- (sf)	A (sf)/Watch Neg
Bb	A- (sf)	A (sf)/Watch Neg

Ratings Affirmed

Ca	BBB+ (sf)
Cb	BBB+ (sf)

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