

Rating Action: Moody's upgrades the ratings on the class D1 and D2 notes of Paragon Personal and Auto Finance (No. 3) PLC

Global Credit Research - 04 Jun 2015

London, 04 June 2015 -- Moody's Investors Service has today upgraded to Aa1 (sf) from Aa2 (sf), on review for upgrade the ratings on Paragon Personal and Auto Finance (No. 3) PLC's class D1 and D2 notes.

Today's rating actions reflect the upgrade of the senior unsecured rating on HSBC Bank PLC as the transaction's swap counterparty to Aa2 from Aa3, on review for upgrade and the assignment of Aa1 (cr) our Counterparty Risk (CR) assessment on 28 May 2015 (see "Moody's concludes reviews on 13 global investment banks' ratings"). It concludes the rating review initiated on 22 May 2015 (see "Moody's upgrades mezzanine notes of two Consumer Loans ABS deals").

Please refer to the end of the Ratings Rationale section for a list of affected ratings.

RATINGS RATIONALE

On 22 May 2015, Moody's placed the ratings on the class D1 and D2 notes on review for upgrade pending the conclusion of the rating review of HSBC Bank as the transaction's swap counterparty.

On 28 May 2015, Moody's upgraded the senior unsecured rating on HSBC Bank as the transaction's swap counterparty to Aa2 from Aa3, on review for upgrade and assigned the Aa1 (cr) CR assessment to the bank. As a result, the transaction's exposure to the cross-currency swap counterparty no longer constrains the ratings on the class D1 and D2 notes under Moody's methodology. Moody's has therefore upgraded the ratings on the class D1 and D2 notes, taking into account the CR assessment of Aa1 (cr) as a reference point in its analysis of the transaction's swap counterparty exposure.

METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Consumer Loan-Backed ABS" published in January 2015. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR A DOWNGRADE OF THE RATING:

Factors or circumstances that could lead to an upgrade of the ratings are (1) the underlying collateral's performance exceeds Moody's expectations; (2) the capital structure deleverages; and (3) the counterparties' credit quality improves.

Factors or circumstances that could lead to a downgrade of the ratings are (1) an increased probability of high losses, owing to a downgrade of the country risk ceiling; (2) the underlying collateral's performance is lower than expected; (3) the notes' available credit enhancement deteriorates; and (4) the counterparties' credit quality deteriorates.

LIST OF AFFECTED RATINGS:

Issuer: Paragon Personal and Auto Finance (No. 3) PLC

...GBP24.5M D1 Notes, Upgraded to Aa1 (sf); previously on May 22, 2015 Upgraded to Aa2 (sf) and Placed Under Review for Possible Upgrade

...EUR30M D2 Notes, Upgraded to Aa1 (sf); previously on May 22, 2015 Upgraded to Aa2 (sf) and Placed Under Review for Possible Upgrade

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 this transaction 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.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, 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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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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