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Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 11 And 12 Following Review

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OVERVIEW

- We have reviewed Paragon Mortgages 11 and 12 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 both transactions.
- Due to an error, we did not lower the 'A-1 (sf)' short-term rating on Paragon Mortgages 11's class A1 notes to 'A-2 (sf)' to reflect the lower of the short-term ratings on the two note conditional purchasers. Today's downgrade of the class A1 notes corrects this error.
- Paragon 11 and Paragon 12 are U.K. buy-to-let transactions securitizing loans that Paragon Mortgages and Mortgage Trust originated. The transactions closed in March and July 2006, respectively.

MADRID (Standard & Poor's) May 29, 2015--Standard & Poor's Rating Services today took various credit rating actions in Paragon Mortgages (No. 11) PLC (Paragon 11) and Paragon Mortgages (No. 12) PLC (Paragon 12).

Specifically, we have:

- Raised our ratings on Paragon 11's class A1, A2a, A2b, and C1b notes, and Paragon 12's class C1a and C1b notes;
- Affirmed our ratings on Paragon 11's class B1a and B1b notes, and Paragon 12's class A1, A2a, A2b, A2c, B1a, and B1b notes;

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- Lowered to 'A-2 (sf)' from 'A-1 (sf)' our short-term rating on Paragon 11's class A1 notes and kept the rating on CreditWatch negative; and
- Kept our 'A-1 (sf)' short-term rating on Paragon 12's class A1 notes on CreditWatch negative (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 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, including repossessions, at 0.18% for both Paragon 11 and 12, 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 transactions, the asset principal paydowns have remained low. Therefore, the pools' 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 transactions' weighted-average seasoning, which increased in April 2015 to 114.88 and 108.52 months in Paragon 11 and 12, respectively, from 76.00 and 74.00 months in June 2012.

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 11 and 12, the currency swap documentation complies with our current counterparty criteria.

The class A1 notes in both transactions have a short-term and long-term rating. The short-term rating addresses the yearly possibility of the investor selling this class of notes to the conditional note purchasers at par, which we have considered to be a put feature under our ratings definitions (see "Standard & Poor's Ratings Definitions," published on Nov. 20, 2014). The long-term rating addresses timely payment of interest and ultimate payment of principal on the notes. The class A1 notes are issued subject to a mandatory transfer condition, under which they are eligible to be sold to third parties annually, with the ultimate obligation to be sold to the conditional note purchasers established in the documentation.

In Paragon 11, the conditional note purchasers are The Royal Bank of Scotland PLC (A-/Watch Neg/A-2) and Deutsche Bank AG, London Branch (A-/Watch Neg/A-1), which have to use funds on their balance sheets to fund the purchase of the

notes on a several basis. The short-term rating on Paragon 11's class A1 notes is linked to the lower of the short-term ratings on the two note purchasers. Due to an error, we did not lower the short-term rating on the class A1 notes to 'A-2 (sf)' to reflect this link. We are today correcting this error by lowering to 'A-2 (sf)' from 'A-1 (sf)' our short-term rating on the class A1 notes to reflect the short-term rating on The Royal Bank of Scotland. The rating remains on CreditWatch negative due to counterparty reasons (see "377 European Structured Finance Ratings Placed On CreditWatch Negative Following Bank Rating Actions," published on Feb. 18, 2015).

In Paragon 12, the conditional note purchaser is Sheffield Receivables Corporations, an asset-backed commercial paper conduit that has to issue commercial paper to raise the funds to purchase the notes. If the conduit cannot issue commercial paper, Barclays Bank PLC (A/Watch Neg/A-1) as liquidity provider, will provide the liquidity necessary to buy the notes. Consequently, our short-term rating on Paragon 12's class A1 notes is linked to our short-term rating on Barclays Bank. Therefore, our 'A-1 (sf)' short-term rating on Paragon 12's class A1 notes remains on CreditWatch negative.

We have raised our ratings on Paragon 11's class A1, A2a, A2b, and C1b notes, and Paragon 12's class C1a and C1b notes as our credit and cash flow results are commensurate with higher ratings than those currently assigned.

Following the application of our U.K. RMBS criteria, our credit and cash flow analysis indicates that the available credit enhancement for Paragon 11's class B1a and B1b notes, and Paragon 12's class A1, A2a, A2b, A2c, B1a, and B1b notes is commensurate with the currently assigned ratings. We have therefore affirmed our 'A (sf)' ratings on Paragon 11 and 12's class B1a and B1b notes, and affirmed our 'AA+ (sf)' ratings on Paragon 12's class A1, A2a, A2b, and A2c notes.

Paragon 11 and 12 are U.K. buy-to-let transactions securitizing loans that Paragon Mortgages Ltd. and Mortgage Trust Ltd. originated. The transactions closed in March and July 2006, respectively.

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

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RELATED CRITERIA AND RESEARCH

Related Criteria

- Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- 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
- Global Derivative Agreement Criteria, June 24, 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

- Credit Conditions: 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
- U.K. RMBS Index Report Q3 2014: Nonconforming Arrears Fall To The Lowest Level Since 2008 As The Economy Strengthens, Nov. 24, 2014
- 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. 11) PLC
€389.6 Million, £165.5 Million, \$985 Million Mortgage-Backed Floating-Rate

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Notes

Ratings Raised

A1	AA+ (sf)	AA (sf)
A2a	AA+ (sf)	AA (sf)
A2b	AA+ (sf)	AA (sf)
C1b	A- (sf)	BBB (sf)

Rating Lowered And Kept On CreditWatch Negative

A1	A-2 (sf)/Watch Neg	A-1 (sf)/Watch Neg
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Ratings Affirmed

B1a	A (sf)
B1b	A (sf)

Paragon Mortgages (No. 12) PLC

€477 Million, £187 Million, \$1.811 Billion Mortgage-Backed Floating-Rate Notes

Ratings Raised

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

Ratings Affirmed

A1	AA+ (sf)
A2a	AA+ (sf)
A2b	AA+ (sf)
A2c	AA+ (sf)
B1a	A (sf)
B1b	A (sf)

Rating Kept On CreditWatch Negative

A1	A-1 (sf)/Watch Neg
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