

# Various Rating Actions Taken In U.K. RMBS Transaction Paragon Personal and Auto Finance (No. 3)

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OVERVIEW

- We have reviewed Paragon Personal and Auto Finance (No. 3) as part of our surveillance review cycle. Since our previous review, arrears levels have been decreasing steadily and available credit enhancement has increased as the transaction's leverage levels decrease.
- Following our review, we have raised our ratings on the class C1, C2, D1, and D2 notes.
- At the same time, we have affirmed our ratings on the class A1, A2, B1, and B2 notes.
- Paragon Personal and Auto Finance (No. 3) securitizes a pool of second-ranking mortgages, auto loans, unsecured personal loans, and unsecured retail credit loans. Paragon Personal Finance, Colonial Finance Ltd. (UK), and Paragon Car Finance originated the collateral.

LONDON (S&P Global Ratings) July 29, 2016--S&P Global Ratings today raised its credit ratings on Paragon Personal and Auto Finance (No. 3) PLC's class C1, C2, D1, and D2 notes. At the same time, we have affirmed our ratings on the class A1, A2, B1, and B2 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 as part of our surveillance review cycle. Our analysis reflects the application of our U.K. residential mortgage-backed securities (RMBS) criteria and our current

counterparty criteria (see "U.K. RMBS Methodology And Assumptions," published on Dec. 9, 2011, and "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

The pool comprises 98.5% second-lien loans secured by residential property and 1.5% unsecured personal loans, auto loans, and retail credit loans. We based our analysis on the pool of residential mortgage loans, as our previous analysis indicates that this assumption is more conservative than if we were to have applied our asset-backed securities (ABS) criteria to the remaining 1.5% of the pool. In our cash flow analysis, we have increased the balance of the pool of residential loans to match the outstanding note balance. The 1.5% of unsecured personal loans, auto loans, and retail credit loans represent an immaterial amount of the transaction and we expect this percentage to further reduce in the future.

We have observed a decrease in our weighted-average foreclosure frequency (WAFF) for the transaction since our previous review (see "Ratings Affirmed In U.K. RMBS Transactions Paragon Personal And Auto Finance (No. 3) And Paragon Secured Finance (No. 1)," published on July 22, 2013). In addition, we have observed a decrease in our weighted-average loss severity (WALS) in the transaction at and below the 'AA' rating stress level.

Rating level	WAFF (%)	WALS (%)
AAA	43.35	96.40
AA	36.01	93.01
A	30.60	85.31
BBB	24.43	78.47
BB	16.84	71.96
B	13.96	65.49

The decrease in the WAFF is mainly due to the increase in seasoning and the decrease in total arrears to 12.24% in March 2016, from 13.98% at our previous review. The decrease in the WALS is due to the decrease in the weighted-average current-loan-to-value (CLTV) ratio to 70.58%, from 86.24% at our previous review (these CLTV ratio figures are based on our calculations).

The transaction's available credit enhancement has increased considerably since our previous review. This increase is due to the amortization rate, combined with a nonamortizing reserve fund that has increased to 49.27% of the pool's current balance, from 28.35% at our previous review. All of the pro rata payment conditions are satisfied--the class A notes' subordination has doubled since closing, the reserve fund is fully funded, there is no asset/liability mismatch, and the April 2010 interest payment date has passed--and the transaction has been amortizing pro rata since March 2011.

The transaction's swap documentation is not in line with our current counterparty criteria. Due to the transaction's dependence on the currency swap, our current counterparty criteria cap our ratings in the transaction at one notch above our 'AA-' long-term issuer credit rating on HSBC Bank PLC as

the swap counterparty.

The class C1, C2, D1, and D2 notes have benefitted from the increase in available credit enhancement, the current pro rata amortization, and the fall in credit coverage compared with at our previous review. We have therefore raised to 'AA (sf)' from 'AA- (sf)' our ratings on the class C1 and C2 notes and to 'A (sf)' from 'BBB (sf)' our ratings on the class D1 and D2 notes.

Despite the increase in credit enhancement available for the class A1, A2, B1, and B2 notes, our current counterparty criteria cap our ratings on these classes of notes at their currently assigned ratings. We have therefore affirmed our 'AA (sf)' ratings on the class A and B notes.

Our credit stability analysis indicates that the maximum projected deterioration that we would expect at each rating level over one- and three-year periods, under moderate stress conditions is in line with our credit stability criteria (see "Methodology: Credit Stability Criteria," published on May 3, 2010).

Paragon Personal and Auto Finance (No. 3) securitizes a pool of second-ranking mortgages, auto loans, unsecured personal loans, and unsecured retail credit loans. Paragon Personal Finance Ltd., Colonial Finance Ltd. (UK), and Paragon Car Finance Ltd. originated the collateral.

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Criteria - Structured Finance - RMBS: U.K. RMBS Methodology And Assumptions - December 09, 2011
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions - October 14, 2013
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria - June 24, 2013
- Legal Criteria: Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance - September 13, 2013
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment - May 28, 2009
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts - May 31, 2012
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications - July 12, 2012
- Criteria - Structured Finance - General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD - March 02, 2015
- Criteria - Structured Finance - General: Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance - May 29, 2015
- General Criteria: Methodology: Credit Stability Criteria - May 03, 2010
- Criteria - Structured Finance - General: Counterparty Risk Framework

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Methodology And Assumptions - June 25, 2013

- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions - October 09, 2014

Related Research

- Ratings On The United Kingdom Lowered To 'AA' On Brexit Vote; Outlook Remains Negative On Continued Uncertainty, June 27, 2016
- Outlook Assumptions For The U.K. Residential Mortgage Market, June 8, 2016
- 2015 EMEA RMBS Scenario And Sensitivity Analysis, Aug. 6, 2015
- 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
- Ratings Affirmed In U.K. RMBS Transactions Paragon Personal And Auto Finance (No. 3) And Paragon Secured Finance (No. 1), July 22, 2013

RATINGS LIST

Class	Rating	
	To	From

Paragon Personal and Auto Finance (No. 3) PLC  
€358 Million, £204.5 Million Mortgage-Backed Floating-Rate Notes

Ratings Raised

C1	AA (sf)	AA- (sf)
C2	AA (sf)	AA- (sf)
D1	A (sf)	BBB (sf)
D2	A (sf)	BBB (sf)

Ratings Affirmed

A1	AA (sf)
A2	AA (sf)
B1	AA (sf)
B2	AA (sf)

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