

Various Rating Actions Taken In U.K. RMBS Transaction Paragon Mortgages (No. 10) Following Review

Primary Credit Analyst:

Ibrahim Bundu-kamara, London +44-20-7176 1231; Ibrahim.Bundu-Kamara@spglobal.com

Secondary Contact:

Aikaterini Pappa, London (44) -20-7176-3515; aikaterini.pappa@spglobal.com

OVERVIEW

- We have reviewed Paragon Mortgages (No. 10) under our current counterparty criteria and U.K. RMBS criteria, and have performed our surveillance credit and cash flow analysis.
- Following our review, and taking into consideration the Sept. 15, 2016 remarketing termination event for the class A1 notes, we have taken various rating actions in the transaction.
- The transaction, which closed in November 2005, is backed by a pool of buy-to-let loans originated by Paragon Mortgages and Mortgage Trust.

LONDON (S&P Global Ratings) Oct. 17, 2016--S&P Global Ratings today took various credit rating actions in Paragon Mortgages (No. 10) PLC.

Specifically, we have:

- Withdrawn our short-term rating on the class A1 notes;
- Assigned our 'AA (sf)' long-term rating to the class A1 notes;
- Affirmed our 'AA (sf)' ratings on the class A2a and A2b notes;
- Affirmed our 'AA- (sf)' ratings on the class B1a and B1b notes; and
- Affirmed our 'A (sf)' ratings on the class C1a and C1b notes.

Today's rating actions follow our credit and cash flow surveillance analysis under our U.K. residential mortgage-backed securities (RMBS) criteria and our current counterparty criteria (see "U.K. RMBS Methodology And Assumptions,"

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published on Dec. 9, 2011), and "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013.

The portfolio's 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. As of August 2016, arrears are below our U.K. buy-to-let RMBS index, with total arrears at 0.25%, compared with our index level of 2.12% (see "U.K. RMBS Index Report Q2 2016: Collateral Performance Improves, But Downside Risks Increase," published on Sept. 20, 2016).

Taking into account the U.K.'s improved economy, and the high proportion of interest-only loans backing the transaction, the asset principal paydown has remained low. Therefore, the pool's characteristics have not changed significantly since our April 29, 2015 review (see "Various Rating Actions Taken In U.K. RMBS Transaction Paragon Mortgages (No. 10) Following Review").

Since our previous review, we have observed a marginal decrease in our weighted-average foreclosure frequency. In addition, we have observed a decrease in our weighted-average loss severity (WALS) in the transaction in all rating scenarios apart from the 'AAA' and 'AA' rating stress levels.

| Rating level | WAFF (%) | WALS (%) |
|--------------|----------|----------|
| AAA | 23.47 | 45.00 |
| AA | 17.28 | 36.61 |
| A | 14.12 | 23.55 |
| BBB | 10.94 | 15.92 |
| BB | 7.66 | 11.05 |
| B | 6.78 | 8.10 |

The decrease in the WAFF is mainly due to the increase in seasoning and the decrease in total arrears to 0.25% in August 2016, from 0.32% 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 65.47%, from 68.47% at our previous review (these CLTV ratio figures are based on our calculations).

At closing, the issuer intended the class A1 notes to be eligible securities for purchase by money market funds under Rule 2a-7 of the U.S. Investment Company Act. To comply with eligibility rules, the notes were denominated in U.S. dollars, had a monthly payment frequency, and were remarketed annually on each class A1 note mandatory transfer date. As part of the remarketing mechanism, the remarketing agent attempts to identify third-party purchasers for the class A1 notes. If the remarketing agent is unable to identify third-party purchasers for the class A1 notes or a remarketing termination event were to occur, the class A1 notes' conditional note purchaser, Sheffield Receivables Corporation, may draw upon the conditional note liquidity facility provided by Barclays Bank PLC to purchase the class A1 notes. Our short-term rating addressed the possibility of the investor selling the class of notes to

the conditional note purchaser at par within the year. We considered this feature to be a put feature under our ratings definitions (see "S&P Global Ratings Definitions," published on Aug. 18, 2016).

On Sept. 15, 2016, the issuer advised us that a remarketing termination event had taken place. Consequently, the notes will no longer be eligible securities for purchase by money market funds under Rule 2a-7 of the U.S. Investment Company Act. In addition, the notes will now be redenominated into British pound sterling (GBP) at the currency swap exchange rate, the interest rate on the class A1 notes will be reset to three-month sterling LIBOR plus 0.09%, and the notes will have a quarterly payment frequency. As a result of the issuer terminating the remarketing agreement, we have withdrawn our 'A-2 (sf)' short-term rating on the class A1 notes.

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.

Despite the transaction's positive asset performance, the low asset paydown, current pro rata amortization, and the counterparty criteria cap have limited the scope for positive rating movements. Consequently, we have affirmed our ratings on the class A2a, A2b, B1a, B1b, C1a, and C1b notes. At the same time, we have assigned our 'AA (sf)' long-term rating to the class A1 notes, given the credit protection provided by the subordination of the class B and C notes and the first loss fund.

Paragon Mortgages (No. 10) closed in November 2005. The transaction is backed by a pool of buy-to-let loans originated by Paragon Mortgages Ltd. and Mortgage Trust Ltd.

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

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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: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions - August 08, 2016
- General Criteria: Methodology: Credit Stability Criteria - May 03, 2010
- Criteria - Structured Finance - General: Counterparty Risk Framework 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

- U.K. RMBS Index Report Q2 2016: Collateral Performance Improves, But Downside Risks Increase, Sept. 20, 2016
- S&P Global Ratings Definitions, Aug. 18, 2016
- 2015 EMEA RMBS Scenario And Sensitivity Analysis, Aug. 6, 2015
- Various Rating Actions Taken In U.K. RMBS Transaction Paragon Mortgages (No. 10) Following Review, April 29, 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 LIST

| Class | Rating |
|-------|--------|
| To | From |

Paragon Mortgages (No. 10) PLC

€269 Million, £187.5 Million, \$1.1 Billion Mortgage-Backed Floating-Rate Notes

Short-Term Rating Withdrawn

| | | |
|----|----|----------|
| A1 | NR | A-2 (sf) |
|----|----|----------|

Long-Term Rating Assigned

| | |
|----|---------|
| A1 | AA (sf) |
|----|---------|

Ratings Affirmed

| | |
|-----|----------|
| A2a | AA (sf) |
| A2b | AA (sf) |
| B1a | AA- (sf) |
| B1b | AA- (sf) |
| C1a | A (sf) |
| C1b | A (sf) |

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NR--Not rated.

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