

Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 12, 18, And 19

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OVERVIEW

- We have reviewed Paragon Mortgages (No. 12), (No. 18), and (No. 19) by conducting our credit and cash flow analysis under our U.K. RMBS criteria.
- Following our review, we have taken various rating actions in these transactions.
- The transactions are backed by pools of primarily buy-to-let loans originated by Paragon Mortgages and Mortgage Trust.

LONDON (S&P Global Ratings) Nov. 16, 2016--S&P Global Ratings today took various credit rating actions in Paragon Mortgages (No. 12) PLC, Paragon Mortgages (No.18) PLC, and Paragon Mortgages (No.19) PLC.

Specifically, we have:

- Affirmed our short-term rating on Paragon Mortgages 12's class A1 notes;
- Raised our long-term ratings on Paragon Mortgages 12's class A1 and A2 notes, and Paragon Mortgages 18 and 19's class B and C notes; and
- Affirmed our ratings on Paragon Mortgages 12's class B1 and C1 notes and Paragon Mortgages 18 and 19's class A notes (see list below).

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

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The collateral performance in all three portfolios has been stable over the past 12 months, with arrears levels consistently lower than those in our U.K. buy-to-let RMBS index (see "U.K. RMBS Index Report Q2 2016: Collateral Performance Improves, But Downside Risks Increase," published on Sept. 20, 2016). As of August 2016, the level of arrears over three months for Paragon Mortgages 18 and 19 stood at 0% and Paragon Mortgages 12 stood at 0.04%, lower than our index level of 2.12%.

Since our previous reviews, we have observed a decrease in our weighted-average foreclosure frequency (WAFF) across all three transactions (see "Related Research"). In addition, we have observed a decrease in our weighted-average loss severity (WALS) in all rating scenarios apart from the 'AAA' and 'AA' rating stress levels.

Paragon Mortgages 12

Rating level	WAFF (%)	WALS (%)
AAA	19.93	46.87
AA	13.52	38.14
A	10.24	24.67
BBB	6.93	16.71
BB	3.58	11.40
B	2.71	7.95

Paragon Mortgages 18

Rating level	WAFF (%)	WALS (%)
AAA	26.23	42.91
AA	17.58	33.43
A	13.25	18.42
BBB	8.92	9.28
BB	4.48	3.45
B	3.36	2.00

Paragon Mortgages 19

Rating level	WAFF (%)	WALS (%)
AAA	25.34	42.43
AA	17.50	32.59
A	13.44	18.96
BBB	9.31	11.39
BB	5.13	6.57
B	4.03	3.19

The decrease in the WAFF is mainly due to the increase in seasoning and the decrease in total arrears since our previous reviews. The decrease in the WALS

is due to the decrease in the weighted-average current-loan-to-value (CLTV) ratio offsetting the increased repossession market value declines in all rating scenarios apart from the 'AAA' and 'AA' rating stress levels.

At closing, Paragon Mortgages 12's class A1 notes were structured to ensure eligibility for purchase by money market funds under Rule 2a-7 of the U.S. Investment Company Act. To comply with eligibility rules, the notes are denominated in U.S. dollars, have a monthly payment frequency, and are 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 Co. LLC, may draw upon the conditional note liquidity facility provided by Barclays Bank PLC to purchase the class A1 notes. Our short-term rating on the class A1 notes addresses 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). As the obligation to fund a possible obligatory purchase of the A1 notes is provided by Barclays Bank, the short term rating on the notes is weak-linked to our short-term issuer credit rating on Barclays Bank. We have therefore affirmed our short-term 'A-2 (sf)' rating on the class A1 notes in Paragon Mortgages 12.

All three transactions benefit from a type of funded nonamortizing reserve fund. For Paragon Mortgages 18 and 19, the reserve fund is split into a nonliquidity component able to be used on principal deficiency ledgers and a liquidity component based on the size of the class A to C notes. Whereas for Paragon Mortgages 12, there is no split and the full reserve fund can be as a nonliquidity reserve. However it will trap a liquidity component from excess spread receipts should the level of arrears over 90 days breach 7.5% of the current balance.

As a result of the large prepayments in these transactions following the expiration of the fixed interest rate terms, the nonamortizing reserve funds and the sequential amortization in these transactions have led to a strong growth in the credit enhancement available to the rated notes. Consequently, the class A1 and A2 notes in Paragon Mortgages 12, and the class B and class C notes in Paragon Mortgages 18 and 19 are now commensurate with higher ratings than those currently assigned. We have therefore raised our ratings on these classes of notes.

Our analysis indicates that the available credit enhancement for the class A notes in Paragon Mortgages 18 and 19 is commensurate with the current ratings assigned. We have therefore affirmed our 'AAA (sf)' ratings on these classes of notes.

Despite the increased credit enhancement to the class B1 notes in Paragon Mortgages 12, the notes remain sensitive to the pro rata amortization and the

resulting slower credit enhancement when we apply our recession three years from now. Furthermore, the class C1 notes in Paragon Mortgages 12 remain sensitive to possible tail risks due to these notes being the most junior in the structure. Consequently, we have affirmed our ratings on the class B1 and C1 notes in Paragon Mortgages 12.

Paragon Mortgages 12, 18, and 19 securitize pools of primarily 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 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 Transactions Paragon Mortgages 11 And 12 Following Review, May 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,

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July 2, 2014

- Ratings Assigned To U.K. RMBS Transaction Paragon Mortgages (No.19)'s Class A, B, And C Notes, March 18, 2014
- Ratings Affirmed And Removed From CreditWatch Negative In U.K. RMBS Transactions Paragon Mortgages (No.17) And (No.18), Jan. 16, 2014

RATINGS LIST

Class	Rating
To	From

Paragon Mortgages (No. 12) PLC

€477 Million, £187 Million, \$1.8111 Billion Mortgage-Backed Floating-Rate Notes

Short-Term Rating Affirmed

A1	A-2 (sf)
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Ratings Raised

A1	AAA (sf)	AA+ (sf)
A2a	AAA (sf)	AA+ (sf)
A2b	AAA (sf)	AA+ (sf)
A2c	AAA (sf)	AA+ (sf)

Ratings Affirmed

B1a	A (sf)
B1b	A (sf)
C1a	A- (sf)
C1b	A- (sf)

Paragon Mortgages (No. 18) PLC

£273 Million Mortgage-Backed Floating-Rate Notes

Ratings Raised

B	AAA (sf)	AA (sf)
C	AA+ (sf)	A (sf)

Rating Affirmed

A	AAA (sf)
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Paragon Mortgages (No. 19) PLC

£350 Million Mortgage-Backed Floating-Rate Notes

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Ratings Raised

B	AAA (sf)	AA (sf)
C	AA+ (sf)	A (sf)

Rating Affirmed

A	AAA (sf)
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