

## Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 15 And 21

**Primary Credit Analyst:**

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

**Secondary Contact:**

Margarita Volodina, London +44 20 7176 6557; Margarita.Volodina@spglobal.com

### OVERVIEW

- We have reviewed Paragon Mortgages 15 and 21 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 Services.

LONDON (S&P Global Ratings) Dec. 9, 2016--S&P Global Ratings today took various credit rating actions in Paragon Mortgages (No. 15) PLC and Paragon Mortgages (No. 21) PLC.

Specifically, we have:

- Raised our long-term ratings on Paragon Mortgages 15's class B and C notes, and Paragon Mortgages 21's class C notes; and
- Affirmed our long-term ratings on Paragon Mortgages 15's class A1 and A2 notes and Paragon Mortgages 21's class A and B 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).

The collateral performance in both 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 Q3 2016," published on Nov. 24, 2016). As of August 2016, arrears over three months for Paragon Mortgages 15 were 0.21% and 0.00% for Paragon Mortgages 21, lower than our index level of 2.12%.

Since our previous reviews, our weighted-average foreclosure frequency (WAFF) has decreased in both transactions (see "Related Research"). In addition, our weighted-average loss severity (WALS) has fallen in all rating scenarios apart from the 'AAA' and 'AA' stress levels for Paragon Mortgages 21 and 'AAA' stress levels for Paragon Mortgages 15.

Paragon Mortgages 15

Rating level	WAFF (%)	WALS (%)
AAA	21.35	51.53
AA	14.31	43.42
A	10.73	30.68
BBB	7.18	22.96
BB	3.64	17.49
B	2.73	12.72

Paragon Mortgages 21

Rating level	WAFF (%)	WALS (%)
AAA	26.80	53.23
AA	18.03	43.98
A	13.58	29.55
BBB	9.09	20.40
BB	4.55	13.65
B	3.41	7.80

The decrease in the WAFF is mainly due to the increase in the transactions' seasoning and the lower 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' stress levels for Paragon 21 and 'AAA' stress levels for Paragon 15.

Both transactions benefit from a type of funded nonamortizing reserve fund. Paragon Mortgages 21's reserve fund is split into a nonliquidity component, which the issuer can use to fund the principal deficiency ledger, and a liquidity component, which is based on the size of the class A to C notes. Paragon Mortgages 15's reserve fund is not split and the issuer can use it as a nonliquidity reserve. However, it will trap a liquidity component from

excess spread receipts if 60+ days arrears breach 3.0% of the current balance.

As a result of the asset paydown, the nonamortizing reserve funds, and the sequential amortization, both transactions' available credit enhancement has increased. This increase is now commensurate with higher ratings for the class B and C notes in Paragon Mortgages 15, and the class C notes in Paragon Mortgages 21. We have therefore raised our ratings on these classes of notes.

Our analysis indicates that the available credit enhancement for the class A1 and A2 notes in Paragon Mortgages 15 and the class A and B notes in Paragon Mortgages 21 is commensurate with the currently assigned ratings. We have therefore affirmed our ratings on these classes of notes.

Paragon Mortgages 15 and 21 securitize pools of primarily buy-to-let loans originated by Paragon Mortgages Ltd. and Mortgage Trust Services PLC.

#### RELATED CRITERIA

- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 08, 2016
- 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: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 09, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Legal Criteria: Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Criteria - Structured Finance - RMBS: U.K. RMBS Methodology And Assumptions, Dec. 09, 2011
- General Criteria: Methodology: Credit Stability Criteria, May 03, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

#### RELATED RESEARCH

- U.K. RMBS Index Report Q3 2016, Nov. 24, 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 15 And 21*

- Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 13, 14, And 15 Following Review, June 30, 2015
- Ratings Assigned To U.K. RMBS Transaction Paragon Mortgages (No. 21), Nov. 13, 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

RATINGS LIST

Class	To	Rating	From
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Paragon Mortgages (No. 15) PLC

€306 Million, £226.5 Million, \$1.15 Billion Mortgage-Backed Floating-Rate Notes

Ratings Raised

B1a	AA (sf)	A+ (sf)
B1b	AA (sf)	A+ (sf)
C1b	BBB+ (sf)	BBB- (sf)

Ratings Affirmed

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

Paragon Mortgages (No. 21) PLC

£250 Million Mortgage-Backed Floating-Rate Notes

Rating Raised

C	A+ (sf)	A (sf)
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Ratings Affirmed

A	AAA (sf)
B	AA (sf)



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