

**Rating Action: Moody's upgrades the ratings of 6 notes in 3 RMBS deals**

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Global Credit Research - 12 May 2017

**Moody's also affirms the ratings of 9 notes**

London, 12 May 2017 -- Moody's Investors Service has today upgraded the ratings of 6 notes in 3 UK RMBS deals. At the same time, 8 notes, including the short-term rating of one note, have been affirmed. The upgrade reflects the increased levels of credit enhancement for Paragon Mortgages (No. 19) PLC and Paragon Mortgages (No. 21) PLC. In addition to the increased level of credit enhancement, Paragon Mortgages (No. 12) PLC also demonstrated better than expected collateral performance. Moody's affirmed the ratings of the notes that had sufficient credit enhancement to maintain current rating on the affected notes.

Please refer to the end of the Ratings Rationale section for a list of affected ratings.

**RATINGS RATIONALE**

These rating actions are prompted by the deals deleveraging which results in an increased credit enhancement for the affected tranches.

Sequential amortization and non-amortising reserve funds led to the increase in the credit enhancement available in these transactions.

For instance, the credit enhancement for the most senior tranches increased from 13.51% to 36.27% for Paragon Mortgages (No. 19) PLC, from 15.34% to 30.79% for Paragon Mortgages (No. 21) PLC, and from 24.97% to 28.80% for Paragon Mortgages (No. 12) PLC since last rating actions.

Moody's has also assessed loan-by-loan information as a part of its detailed transaction review to determine the credit support consistent with target rating levels and the volatility of future losses. As a result, Moody's has decreased the portfolio credit Milan assumption to 14.0% for Paragon Mortgages (No. 12) PLC whilst maintaining the other collateral assumptions.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in September 2016. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

The analysis undertaken by Moody's at the initial assignment of these ratings for RMBS securities may focus on aspects that become less relevant or typically remain unchanged during the surveillance stage. Please see Moody's Approach to Rating RMBS Using the MILAN Framework for further information on Moody's analysis at the initial rating assignment and the on-going surveillance in RMBS.

Please note that on 22nd of March 2017, Moody's released a Request for Comment, in which it has requested market feedback on potential revisions to its Methodology for Structured Finance. If the revised Methodology is implemented as proposed, the Credit Rating on the above mentioned deals is not expected to be affected. Please refer to Moody's Request for Comment, titled "Moody's Proposes Revisions to Its Approach to Assessing Counterparty Risks in Structured Finance", for further details regarding the implications of the proposed Methodology revisions on certain Credit Ratings.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include (1) performance of the underlying collateral that is better than Moody's expected, (2) deleveraging of the capital structure and (3) improvements in the credit quality of the transaction counterparties.

Factors or circumstances that could lead to a downgrade of the ratings include (1) an increase in sovereign risk (2) performance of the underlying collateral that is worse than Moody's expected, (3) deterioration in the notes' available credit enhancement and (4) deterioration in the credit quality of the transaction counterparties.

LIST OF AFFECTED RATINGS:

Issuer: Paragon Mortgages (No. 12) PLC

...GBP25M Class B1a Notes, Upgraded to Aa1 (sf); previously on Sep 3, 2014 Confirmed at Aa2 (sf)

...EUR126M Class B1b Notes, Upgraded to Aa1 (sf); previously on Sep 3, 2014 Confirmed at Aa2 (sf)

...US\$1500M Class A1 Notes, Affirmed P-1 (sf); previously on Jul 20, 2006 Definitive Rating Assigned P-1 (sf)

...US\$1500M Class A1 Notes, Affirmed Aaa (sf); previously on Sep 3, 2014 Confirmed at Aaa (sf)

...GBP145M Class A2a Notes, Affirmed Aaa (sf); previously on Sep 3, 2014 Confirmed at Aaa (sf)

...EUR245M Class A2b Notes, Affirmed Aaa (sf); previously on Sep 3, 2014 Confirmed at Aaa (sf)

...US\$311M Class A2c Notes, Affirmed Aaa (sf); previously on Sep 3, 2014 Confirmed at Aaa (sf)

...GBP17M Class C1a Notes, Affirmed A2 (sf); previously on Sep 3, 2014 Confirmed at A2 (sf)

...EUR106M Class C1b Notes, Affirmed A2 (sf); previously on Sep 3, 2014 Confirmed at A2 (sf)

Issuer: Paragon Mortgages (No. 19) PLC

...GBP15.8M Class B Notes, Upgraded to Aaa (sf); previously on Mar 18, 2014 Definitive Rating Assigned Aa2 (sf)

...GBP14M Class C Notes, Upgraded to Aa1 (sf); previously on Mar 18, 2014 Definitive Rating Assigned A1 (sf)

...GBP313.2M Class A Notes, Affirmed Aaa (sf); previously on Mar 18, 2014 Definitive Rating Assigned Aaa (sf)

Issuer: Paragon Mortgages (No. 21) PLC

...GBP17.7M Class B Notes, Upgraded to Aaa (sf); previously on Nov 13, 2014 Definitive Rating Assigned Aa2 (sf)

...GBP8.1M Class C Notes, Upgraded to Aa2 (sf); previously on Nov 13, 2014 Definitive Rating Assigned A1 (sf)

...GBP217.9M Class A Notes, Affirmed Aaa (sf); previously on Nov 13, 2014 Definitive Rating Assigned Aaa (sf)

#### REGULATORY DISCLOSURES:

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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