



## Fitch Upgrades 1 Tranche of First Flexible No.7 plc; Affirms Others

Fitch Ratings-London-01 February 2017: Fitch Ratings has upgraded First Flexible No.7 plc's (FF7) class B notes and affirmed class A and C notes as follows:

Class A (ISIN XS0282470797): affirmed at 'AAAsf'; Outlook Stable

Class B (ISIN XS0282471092): upgraded to 'AAAsf' from 'AAsf'; Outlook Stable

Class C (ISIN XS0282471175): affirmed at 'Asf'; Outlook Stable

FF7's class C notes remain capped at the rating of the issuer account bank, Barclays (A/Stable/F1).

FF7 is a securitisation of owner-occupied (89% by value) and buy-to-let (11%) mortgages originated by Paragon Group of Companies plc.

### KEY RATING DRIVERS

Improved Performance

The upgrade reflects continuous improvement in late-stage arrears and the stable levels of outstanding possessions.

At end-November 2016, current arrears greater than 30 days were reported at 4.7% of the outstanding pool balance. Excluding loans subject to Paragon's receiver of rent policy, 1.9% of the pool was in arrears by more than 90 days. This represents an improvement of 70bp on November 2015.

### Floating Unhedged Proportion

Of the underlying loans 99.9% are currently on a floating rate. Of this 55.9% pay Paragon's standard variable rate (SVR), 27.2% are linked to the Bank of England base rate (BBR) and 16.7% are linked to Libor. The transaction does not have a swap in place covering the mismatch between the interest rates received on the portfolio and the 3-month GBP Libor due on the notes.

In consideration of the unhedged interest rate risk, Fitch stressed the excess spread available to the transaction. In particular, Fitch assumed the SVR to be equal to Libor plus 2.6%. The agency also reduced the BBR margins by between 100bps and 200bps for the first 12 months and by 50bps for the following years.

### Payment Interruption Risk

Homeloan Management Limited (HML) acts as a standby servicer for this transaction, partially mitigating the risk of a disruption in servicing activity. Also, a reserve fund can be used towards senior fees' and notes' interest shortfalls. In its analysis, Fitch tested the ability of the cash reserve to guarantee timely interest payments to all notes rated above 'A+sf' in the absence of an active servicer, under stressed Libor assumptions, for at least one payment date.

### Sufficient Credit Enhancement (CE)

At end-November 2016 the CE available to the class A, B and C notes was 20.1%, 12.1% and 4.1%. This, in combination with an improving performance, led to the affirmation on the class A notes' rating and to the upgrade of the rating of the class B notes.

### RATING SENSITIVITIES

In Fitch's view, as 99.9% of pool is on a floating rate, a sudden sharp increase in interest rates would put a strain on borrower affordability and potentially lead to a rise in arrears and subsequent defaults. Should arrears and defaults exceed Fitch's current stresses, the agency may take negative rating action.

### USE OF THIRD-PARTY DUE DILIGENCE PURSUANT TO RULE 17G-10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

### DATA ADEQUACY

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pools and the transactions. There were no findings that affected the rating analysis. Fitch has not reviewed the results of any third party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Fitch did not undertake a review of the information provided about the underlying asset pool ahead of the transaction's initial closing. The subsequent performance of the transaction over the years is consistent with the agency's expectations given the operating environment and Fitch is therefore satisfied that the asset pool information relied upon for its initial rating analysis was adequately reliable.

Overall, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

#### SOURCES OF INFORMATION

The information below was used in the analysis.

- Loan-by-loan data provided by Paragon Group of Companies plc as at 30 November 2016.
- Transaction reporting provided by Paragon Group of Companies plc as at 1 December 2016.

#### MODELS

ResiEMEA. (<https://www.fitchratings.com/jsp/creditdesk/ToolsAndModels.faces?context=2&detail=135>)

EMEA RMBS Surveillance Model. ([https://www.fitchratings.com/web\\_content/pages/rmbs/emea-rmbs-surveillance-model.htm](https://www.fitchratings.com/web_content/pages/rmbs/emea-rmbs-surveillance-model.htm))  
EMEA

Cash Flow Model. ([https://www.fitchratings.com/web\\_content/pages/sf/emea-cash-flow-model.htm](https://www.fitchratings.com/web_content/pages/sf/emea-cash-flow-model.htm))

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

#### Applicable Criteria

Counterparty Criteria for Structured Finance and Covered Bonds (pub. 01 Sep 2016)

(<https://www.fitchratings.com/site/re/886006>)

Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum (pub. 18 Jul 2016)

(<https://www.fitchratings.com/site/re/884964>)

Criteria Addendum: UK Residential Mortgage Assumptions (pub. 22 Jul 2016) (<https://www.fitchratings.com/site/re/885323>)

Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (pub. 26 Oct 2016)

(<https://www.fitchratings.com/site/re/888492>)

Criteria for Rating Caps and Limitations in Global Structured Finance Transactions (pub. 16 Jun 2016)

(<https://www.fitchratings.com/site/re/882401>)

EMEA RMBS Rating Criteria (pub. 29 Nov 2016) (<https://www.fitchratings.com/site/re/891276>)

Global Structured Finance Rating Criteria (pub. 27 Jun 2016) (<https://www.fitchratings.com/site/re/883130>)

#### Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

([https://www.fitchratings.com/creditdesk/press\\_releases/content/ridf\\_frame.cfm?pr\\_id=1018414&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSVILR0dFSIUUIZPMVVDV0FaVIQzWIFSU0VQU09XWVVSNDZkZVkpXWCIslmV4cCI6MTQ4NjU0OTIxNywidXNlcklkIjoyNjIzOTM4fQ.INmuuiHmVdA1sxGSPuvJQcids9BwQ3VXWn1mOK2d8M0](https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1018414&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJzZXNzaW9uS2V5IjoiSVILR0dFSIUUIZPMVVDV0FaVIQzWIFSU0VQU09XWVVSNDZkZVkpXWCIslmV4cCI6MTQ4NjU0OTIxNywidXNlcklkIjoyNjIzOTM4fQ.INmuuiHmVdA1sxGSPuvJQcids9BwQ3VXWn1mOK2d8M0))

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