

Various Rating Actions Taken In U.K. RMBS Transactions Paragon Secured Finance (No.1) And Paragon Mortgages 13

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OVERVIEW

- We have reviewed Paragon Secured Finance (No. 1) and Paragon Mortgages (No. 13) by conducting our credit and cash flow analysis under our European residential loans criteria.
- Following our review, we have taken various rating actions in these transactions.
- Paragon Secured Finance No. 1 and Paragon Mortgages 13 are backed by pools of mortgages originated by Paragon Mortgages, Paragon Personal Finance, and Mortgage Trust.

LONDON (S&P Global Ratings) Feb. 21, 2017--S&P Global Ratings today took various credit rating actions in Paragon Secured Finance (No. 1) PLC and Paragon Mortgages (No. 13) PLC.

Specifically, we have:

- Raised our ratings on Paragon Secured Finance (No. 1)'s class A, B, and C notes, and Paragon Mortgages 13's class B and C notes; and
- Affirmed our ratings on Paragon Mortgages 13's class A1 and A2 notes (see list below).

Today's rating actions follow our credit and cash flow surveillance analysis

under our European residential loans criteria and our current counterparty criteria (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published on Dec. 23, 2016, and "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

The collateral performance in both portfolios has remained stable since our previous reviews (see "Various Rating Actions Taken In U.K. RMBS Transaction Paragon Secured Finance (No. 1) Following Review," published on July 31, 2015, and "Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 13, 14, And 15 Following review," published on June 30, 2015). As of January 2017, the level of arrears over three months for Paragon Secured Finance (No. 1) and Paragon Mortgages 13 increased to 9.26% and 0.43%, respectively, compared to 9.03% and 0.42% at our previous reviews.

Since our previous reviews, we have observed a decrease in our weighted-average foreclosure frequency (WAFF) in both transactions. 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 Secured Finance (No. 1)

Rating level	WAFF (%)	WALS (%)
AAA	41.97	99.50
AA	32.56	97.33
A	26.26	92.32
BBB	19.99	88.09
BB	13.75	83.89
B	11.42	78.77

Paragon Mortgages 13

Rating level	WAFF (%)	WALS (%)
AAA	19.33	47.58
AA	12.96	38.98
A	9.74	25.16
BBB	6.51	17.00
BB	3.33	11.59
B	2.49	7.90

The decrease in the WAFF is mainly due to the increase in seasoning 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.

Both transactions benefit from a fully funded nonamortizing reserve fund. In addition, Paragon Mortgages 13 traps a liquidity component from excess spread receipts if the level of arrears over 90 days breaches 7.5% of the current balance.

The nonamortizing reserve funds combined with the large paydown of assets since our previous reviews, have led to a strong growth in the credit enhancement available to the rated notes in Paragon Secured Finance (No. 1). Consequently, the available credit enhancement for the class A, B, and C notes in this transaction is now commensurate with higher ratings than those currently assigned. We have therefore raised our ratings on these classes of notes.

The decreased credit coverage required and the increased level of available credit enhancement for the class B and C notes in Paragon Mortgages 13 are commensurate with higher ratings than those currently assigned. We have therefore raised our ratings on these classes of notes.

Despite the increased credit enhancement for the class A1 and A2 notes in Paragon Mortgages 13, we do not consider the currency swap agreements to be in line with our current counterparty criteria. Therefore, the maximum potential ratings for these notes are constrained at one notch above the issuer credit rating on the swap counterparty, HSBC Bank PLC (AA-/Negative/A-1+). We have therefore affirmed our 'AA (sf)' ratings on the class A1 and A2 notes in Paragon Mortgages 13.

Paragon Secured Finance No. 1 is backed by a pool of primarily second ranking mortgages originated by Paragon Personal Finance. Paragon Mortgages 13 is backed by a pool of primarily buy-to-let loans originated by Paragon Mortgages and Mortgage Trust.

RELATED CRITERIA

- Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Dec. 23, 2016
- 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
- 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

- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- 2015 EMEA RMBS Scenario And Sensitivity Analysis, Aug. 6, 2015
- Various Rating Actions Taken In U.K. RMBS Transaction Paragon Secured Finance (No. 1) Following Review, July 31, 2015
- Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 13, 14, And 15 Following review, June 30, 2015

RATINGS LIST

Class	Rating	
	To	From

Paragon Mortgages (No. 13) PLC

€480 Million, £991.872 Million, \$350 Million Mortgage-Backed Floating-Rate Notes

Ratings Raised

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

Ratings Affirmed

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

Paragon Secured Finance (No.1) PLC

£300 Million Mortgage-Backed Floating-Rate Notes

Ratings Raised

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

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