

Ratings Raised In U.K. RMBS Transaction Paragon Mortgages 11 Following Review

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OVERVIEW

- We have reviewed Paragon Mortgages (No. 11) by conducting our credit and cash flow analysis under our European residential loans criteria.
- Following our review, we have raised our long-term ratings on the class A to C notes, and withdrawn our short-term rating on the class A1 notes.
- Paragon Mortgages (No. 11) is backed by a pool of buy-to-let loans originated by Paragon Mortgages and Mortgage Trust.

LONDON (S&P Global Ratings) April 7, 2017--S&P Global Ratings today raised its long-term credit ratings on Paragon Mortgages (No. 11) PLC's class A1, A2a, A2b, B1a, B1b, and C1b notes. At the same time, we have withdrawn our short-term rating on the class A1 notes (see list below).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 transaction's collateral performance 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 For Q4 2016 Published,"

published on March 10, 2017). As of December 2016, the level of arrears over three months for Paragon Mortgages 11 stood at 0.18%, lower than our index level of 2.29%.

Since our previous review, we have observed a decrease in our weighted-average foreclosure frequency (WAFF) (see "Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 11 And 12 Following Review," published on May 29, 2015). 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 11

Rating level	WAFF (%)	WALS (%)
AAA	19.79	46.74
AA	13.31	37.80
A	10.03	23.48
BBB	6.73	14.96
BB	3.47	9.34
B	2.62	6.34

The decrease in the WAFF is mainly due to the increase in seasoning and the decrease in total arrears since our previous review. 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 11'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 purchasers, Deutsche Bank A.G., London Branch (A-/Negative/A-2) and The Royal Bank of Scotland PLC (BBB+/Stable/A-2), will purchase the class A1 notes.

On Jan. 17, 2017, a remarketing termination event took place. Consequently, the notes will no longer be eligible securities for purchase by money market funds under Rule 2a-7 of the U.S. Investment Company Act. In addition, the notes will now be redenominated into British pound sterling (GBP) at the currency swap exchange rate, the interest rate on the class A1 notes will be reset to three-month sterling LIBOR plus 0.10%, and the notes will have a quarterly payment frequency. As a result of the issuer terminating the remarketing agreement, we have withdrawn our 'A-2 (sf)' short-term rating on

the class A1 notes.

Available credit enhancement for the rated notes has gradually increased since our previous review due to a combination of the asset paydown and the nonamortizing reserve fund. Consequently, given the lower credit coverage required at all rating levels and the continued strong asset performance, the long-term ratings on all rated notes are now commensurate with higher ratings than those currently assigned. We have therefore raised our long-term ratings on all classes of notes.

Paragon Mortgages 11 securitizes a pool of buy-to-let loans originated by Paragon Mortgages Ltd. and Mortgage Trust Ltd.

RELATED CRITERIA

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- 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
- 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

- U.K. RMBS Index Report For Q4 2016 Published, March 10, 2017
- 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
- S&P Global Ratings Definitions, Aug. 18, 2016
- 2015 EMEA RMBS Scenario And Sensitivity Analysis, Aug. 6, 2015

Ratings Raised In U.K. RMBS Transaction Paragon Mortgages 11 Following Review

- Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 11 And 12 Following Review, May 29, 2015

RATINGS LIST

Class	To	Rating	From
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Paragon Mortgages (No. 11) PLC

€389.6 Million, £165.5 Million, \$985 Billion Mortgage-Backed Floating-Rate Notes

Short-Term Rating Withdrawn

A1	NR		A-2 (sf)
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Ratings Raised

A1	AAA (sf)		AA+ (sf)
A2a	AAA (sf)		AA+ (sf)
A2b	AAA (sf)		AA+ (sf)
B1a	AA- (sf)		A (sf)
B1b	AA- (sf)		A (sf)
C1b	A+ (sf)		A- (sf)

NR--Not rated.

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