

## Various Rating Actions Taken In U.K. RMBS Transaction Paragon Mortgages 14 Following Review

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OVERVIEW

- We have reviewed Paragon Mortgages (No. 14) 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 B and C notes, and affirmed our long-term rating on the class A notes.
- At the same time, we have withdrawn our short-term rating on the class A1 notes.
- Paragon Mortgages (No. 14) is backed by a pool of buy-to-let loans originated by Paragon Mortgages and Mortgage Trust.

LONDON (S&P Global Ratings) Sept. 5, 2017--S&P Global Ratings today raised its long-term credit ratings on Paragon Mortgages (No. 14) PLC's class B1a, B1b, C1a, and C1b notes. At the same time, we have affirmed our long-term credit ratings on the class A1, A2a, A2b, and A2c notes, and withdrawn our short-term rating on the class A1 notes (see list below).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 (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published on Aug. 4, 2017,).

The transaction's collateral performance has been stable over the past 12 months, with arrears levels consistently lower than those in our U.K.

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buy-to-let residential mortgage-backed securities (RMBS) index (see "U.K. RMBS Index Report Q1 2017," published on June 1, 2017). As of June 2017, the level of arrears over three months for Paragon Mortgages 14 stood at 0.19%, lower than our index level of 3.1%.

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 13, 14, And 15 Following Review," published on June 30, 2015). In addition, we have observed a decrease in our weighted-average loss severity (WALS) in all rating scenarios apart from the 'AAA' rating stress levels.

Rating level	WAFF (%)	WALS (%)
AAA	20.22	50.36
AA	13.55	41.32
A	10.18	27.36
BBB	6.80	18.89
BB	3.46	13.06
B	2.59	8.72

The decrease in the WAFF is mainly due to the increase in seasoning 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' rating stress levels.

At closing, Paragon Mortgages 14'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 were denominated in U.S. dollars, had a monthly payment frequency, and were remarketed annually on each class A1 note mandatory transfer date. As part of the remarketing mechanism, the remarketing agent attempted to identify third-party purchasers for the class A1 notes. If the remarketing agent was 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 purchaser, The Royal Bank of Scotland PLC (BBB+/Stable/A-2), was obliged to purchase the class A1 notes.

On Dec. 15, 2016, a remarketing termination event took place. Consequently, the notes are no longer eligible securities for purchase by money market funds under Rule 2a-7 of the U.S. Investment Company Act. In addition, the notes were redenominated into British pound sterling (GBP) at the currency swap exchange rate, the interest rate on the class A1 notes was reset to three-month sterling LIBOR plus 0.20%, and the notes now pay quarterly. 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 the class B and C notes are now commensurate with higher ratings than those currently assigned. We have therefore raised our long-term ratings on the class B1a, B1b, C1a, and C1b notes.

At the same time, the available credit enhancement for the class A notes is commensurate with the current long-term ratings assigned. We have therefore affirmed our 'AAA (sf)' ratings on the class A1, A2a, A2b, and A2c notes.

Paragon Mortgages 14 securitizes a pool of buy-to-let loans originated by Paragon Mortgages Ltd. and Mortgage Trust Ltd.

#### RELATED CRITERIA

- Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 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 2, 2015
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 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 3, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

#### RELATED RESEARCH

- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
- S&P Global Ratings Definitions, June 26, 2017
- U.K. RMBS Index Report Q1 2017, June 1, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- 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. 14) PLC

€470.3 Million, £196.9 Million, \$1.9 Billion Mortgage-Backed Floating-Rate Notes

Short-Term Rating Withdrawn

A1	NR	A-2 (sf)
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Ratings Raised

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

Ratings Affirmed

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

NR--Not rated.

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