



Correction: Fitch Takes Rating Action on Paragon RMBS Series

Link to Fitch Ratings' Report(s): Fitch Takes Rating Action on Paragon RMBS Series - Amended (<https://www.fitchratings.com/site/re/10027476>)

Fitch Ratings-London-18 April 2018 This announcement corrects the version published on 15 March 2018 which incorrectly stated the Outlook of Paragon Mortgages (No.20) class B notes.

Fitch Ratings has upgraded seven tranches and affirmed 39 tranches and two currency swap obligations of the Paragon RMBS series. A full list of rating actions is available at www.fitchratings.com or by clicking the link above.

The series is backed by loans originated by Paragon Mortgage Limited, Paragon Mortgages (2010) Limited and Mortgage Trust Limited, all subsidiaries of The Paragon Group. It comprises eight Paragon buy-to-let (BTL) deals and one non-conforming RMBS transaction, Paragon Secured Finance (PSF1), which is fully backed by second-charge loans.

Fitch's Criteria for Rating Currency Swap Obligations of an SPV in Structured Finance Transactions and Covered Bonds expect that a rating action with respect to a note tranche results in a corresponding rating action with respect to the related rated swap obligations.

KEY RATING DRIVERS

Stable Asset Performance

Loans with arrears greater than three months have remained stable over the last 12 months ranging from 0% (Paragon 22 to 24) to 0.41% (Paragon 13) of the current portfolio balance. Given the BTL nature of the underlying pools, borrowers in arrears by more than two months are predominantly managed by Paragon via its receiver of rent policy, where the full rental stream is diverted to Paragon, as administrator, and used towards clearing arrears. Paragon's extensive use of its receiver of rent policy has therefore contributed towards the low level of delinquencies across the series.

As of January 2018, PSF1's 3m+ arrears were reported at 9.2% compared with 9.3% in the same period last year. Cumulative losses have increased by only 13bp since January 2017 to 10.1%. In Fitch's view, the robust gross excess spread of

over 7.3% generated by the structure will continue to be sufficient to cover these losses.

Credit Enhancement (CE) and Excess Spread Build-up

The stable asset performance, high prepayment rates and the non-amortising reserve funds in Paragon 20, 22, 23 and 24 have contributed to the increase in CE in the series. In addition, the shift of the first loss funds from the amounts available for liquidity to amounts that are available to cover losses has helped further increase the CE in the transactions. Excess spread has built up due to asset switches from lower paying fixed rates to higher paying floating rate loans. The CE build up together with the increase in the excess spread has contributed to the upgrades of the junior notes' ratings in Paragon 22, 23 and 24.

Rating Cap for Junior Notes

The junior notes of Paragon 10-13 are capped at the rating of the account bank (Barclays Bank Plc; A/Rating Watch Positive/F1). The CE available to the junior notes is only provided by the first loss fund, which can be either invested in authorised investments or held in the transaction account bank at Barclays. In Fitch's opinion, these notes are credit linked to Barclays' Long-Term Issuer Default Rating (IDR), hence the ratings of the junior notes in Paragon 10, 11, 12, 13 are capped at this level.

High Interest-only Concentration, Possible Tail Risk

Fitch has tested the high interest-only concentrations in the pools for Paragon 20, 22, 23 and 24. The analysis showed that the current CE was sufficient to withstand the high concentrations in the four transactions. However, in its future reviews of the transactions Fitch will continue to monitor portfolio changes and potential tail risk due to the high interest-only maturity concentration two to three years prior to the legal final maturity date of the transactions.

RATING SENSITIVITIES

The UK asset performance outlook for BTL mortgages is negative due to the impact of tighter affordability tests introduced in 2017 and due to Brexit uncertainty causing concerns about future rental growth for the main BTL hotspots (London and southeast England), and the performance of BTL mortgages overall. These Paragon Mortgages pools are 100% BTL, except for PSF1, and could be impacted by changes in the market conditions and economic environment.

The ratings of the junior notes in Paragon 10, 11, 12, 13 are capped at Barclays' IDR. Any changes in the bank's IDR (which is currently on Rating Watch Positive) may result in rating action on these notes.

Fitch analysed the impact of negative payments being payable within the cross

currency swap agreements for Paragon 20, 22, 23 and 24. If EURIBOR decreases to the extent the all in rate payable by the swap counterparty is negative, the issuer is expected to pay this amount to the swap counterparty. Fitch's analysis showed the impact on the note ratings to be immaterial.

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.

Relevant for PSF1 to Paragon 13:

Fitch did not undertake a review of the information provided about the underlying asset pools ahead of the transactions' initial closing. The subsequent performance of the transactions 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.

Relevant for Paragon 20 to Paragon 24:

Prior to the transactions closing, Fitch reviewed the results of a third party assessment conducted on the asset portfolio information and concluded that there were no findings that affected the rating analysis. Prior to the transactions closing, Fitch conducted a review of a small targeted sample of Paragon's origination files and found the information contained in the reviewed files to be adequately consistent with the originator's policies and practices and the other information provided to the agency about the asset portfolios.

Overall and together with the assumptions referred to above, 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 Finance plc as at November 2017 (Paragon Mortgages No. 10, 22), December 2017 (Paragon Mortgages No. 11, 13, 23, 24), January 2018 (Paragon Mortgages No. 12, 20 and Paragon Secured Finance No. 1)
- Transaction reporting provided by Paragon Finance plc as at October 2017

(Paragon Mortgages No. 12), November 2017 (Paragon Mortgages No. 10, 22), December 2017 (Paragon Mortgages No. 11, 13, 23, 24), January 2018 (Paragon Mortgages No. 20 and Paragon Secured Finance No. 1)

MODELS

ResiEMEA

ResiEMEA. (<https://www.fitchratings.com/site/structuredfinance/rmbs/resiemea>)

EMEA RMBS Surveillance Model

EMEA RMBS Surveillance Model.

(<https://www.fitchratings.com/site/structuredfinance/rmbs/emearsm>)

EMEA CashFlow Model

EMEA Cash Flow Model.

(<https://www.fitchratings.com/site/structuredfinance/emeacfm>)

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Additional information is available on www.fitchratings.com

Applicable Criteria

Criteria for Rating Currency Swap Obligations of an SPV in Structured Finance Transactions and Covered Bonds (pub. 11 Aug 2016)

(<https://www.fitchratings.com/site/re/885925>)

EMEA RMBS Rating Criteria (pub. 27 Oct 2017)

(<https://www.fitchratings.com/site/re/905358>)

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered

Bonds - Excel File (pub. 02 Feb 2018)

(<https://www.fitchratings.com/site/re/10018863>)

Global Structured Finance Rating Criteria (pub. 03 May 2017)

(<https://www.fitchratings.com/site/re/897411>)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898537>)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898538>)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 18 Sep 2017) (<https://www.fitchratings.com/site/re/903496>)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018) (<https://www.fitchratings.com/site/re/10018549>)

UK Residential Mortgage Rating Criteria Addendum - Residential Mortgage Assumptions (pub. 08 Dec 2017) (<https://www.fitchratings.com/site/re/905920>)

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Dodd-Frank Rating Information Disclosure Form

(<https://www.fitchratings.com/site/dodd-frank-disclosure/10027475>)

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