



## Fitch Downgrades First Flexible No. 7 plc Class B Notes to 'Asf'

Fitch Ratings-London-09 January 2019: Fitch Ratings has downgraded First Flexible No. 7 plc's (FF7) class B notes and affirmed the class A and C as follows:

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

Class B (ISIN XS0282471092): downgraded to 'Asf' from 'AAAsf'; Outlook Negative

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

FF7 is a securitisation issued in 2007 and consisting of owner-occupied (84.9%) and buy-to-let (15.1%) mortgages originated by Paragon Group of Companies plc.

### KEY RATING DRIVERS

#### Interest-Only Loans Maturity Risk

As of August 2018, 51 loans in the pool (accounting for 11.4% of the pool balance) have gone beyond the maturity date without meeting the final balloon principal payment. This compares with 68 loans as of August 2017. In the interim, 22 were redeemed and five new loans passed the maturity date without repayment.

The 51 loans are reported as performing by the servicer. Fitch understands from the servicer that most of these 51 loans are continuing to pay interest and that borrowers are actively co-operating with the servicer to repay the loans. However, Fitch does not have visibility on the specific arrangements taken by these borrowers. Fitch has applied a data adjustment to treat these loans as being in arrears from the scheduled maturity date. This reflects the outstanding principal payment.

Despite the improvement in the number of loans past the maturity date, maturity risk remains as more loans come to the end of their term. Fitch believes the class B and C notes are most vulnerable to this risk.

#### Pro-rata Pay-down

The pool has paid down to 4.6% of its original collateral balance as of the interest payment date in September 2018. The class A notes are building up credit enhancement due to their sequential pay-down ahead of the class B and C notes and the non-amortising reserve fund.

Once the class A notes have been repaid in full, class B and C will pay down pro-rata unless documented triggers are breached.

In a pro-rata scenario, the class B and C notes are equally exposed to the risk that some interest-only loans remain outstanding at the legal maturity of the notes in September 2033. Fitch has therefore further downgraded the class B notes and maintained the Negative Outlook on the class B and C notes.

#### Excess Spread

The transaction has reported excess spread amounts in the range of 1.6% and 4.2% since Fitch's last rating action a year ago. As the abovementioned overdue interest-only loans are not recognised as defaulted then this excess spread is not being used for the benefit of noteholders.

#### RATING SENSITIVITIES

The ratings are primarily exposed to the risk that a proportion of interest-only loans in the pool will not be able to repay the balloon payment by legal final maturity in 2033, which may cause principal losses on the class B and C notes. Fitch will continue to monitor these loans.

#### 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 pool and the transaction. 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 31 August 2018
- Transaction reporting provided by Paragon Group of Companies plc as at 17 September 2018 referring to the cut-off of 31 August 2018

#### MODELS

The models below were used in the analysis. Click on the link for a description of the model.

##### ResiGlobal

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

##### EMEA RMBS Surveillance Model

EMEA RMBS Surveillance Model. (<https://www.fitchratings.com/site/structuredfinance/rmbs/emearsm>)

##### EMEA Cash Flow Model

EMEA Cash Flow Model. (<https://www.fitchratings.com/site/structuredfinance/emeacfm>)

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### **Applicable Criteria**

EMEA RMBS Rating Criteria (pub. 21 Dec 2018) (<https://www.fitchratings.com/site/re/10055897>)  
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. 15 May 2018) (<https://www.fitchratings.com/site/re/10029600>)  
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 01 Aug 2018) (<https://www.fitchratings.com/site/re/10039504>)  
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 01 Aug 2018) (<https://www.fitchratings.com/site/re/10039505>)  
Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018) (<https://www.fitchratings.com/site/re/10047041>)  
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018) (<https://www.fitchratings.com/site/re/10018549>)  
United Kingdom Residential Mortgage Rating Criteria Addendum (pub. 18 May 2018) (<https://www.fitchratings.com/site/re/10030716>)

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