

**Rating Action: Moody's downgrades two Notes in Paragon Mortgages (No. 12) PLC**

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Global Credit Research - 17 Apr 2018

London, 17 April 2018 -- Moody's Investors Service ("Moody's") has today downgraded the ratings of two notes in Paragon Mortgages (No.12) PLC. At the same time, Moody's has affirmed the long-term ratings on six notes. Today's downgrades reflect the downgrade of long-term counterparty risk assessment ("CR Assessment") of Barclays Bank PLC which acts as swap counterparty for Paragon Mortgages (No. 12) PLC. Moody's affirmed the ratings of the notes that had sufficient credit enhancement to maintain current rating on the affected Notes. Moody's also affirmed the short-term rating of the Class A1 Notes.

Today's rating action concludes the review for downgrade of two Notes in Paragon Mortgages (No. 12) PLC initiated on 6 March 2018 ([http://www.moodys.com/viewresearchdoc.aspx?docid=PR\\_380361](http://www.moodys.com/viewresearchdoc.aspx?docid=PR_380361) )

...US\$1500M Class A1 Notes, Affirmed Aaa (sf); previously on May 12, 2017 Affirmed Aaa (sf)

...US\$1500M Class A1 Notes, Affirmed P-1 (sf); previously on May 12, 2017 Affirmed P-1 (sf)

...GBP145M Class A2a Notes, Affirmed Aaa (sf); previously on May 12, 2017 Affirmed Aaa (sf)

...EUR245M Class A2b Notes, Affirmed Aaa (sf); previously on May 12, 2017 Affirmed Aaa (sf)

...US\$311M Class A2c Notes, Affirmed Aaa (sf); previously on May 12, 2017 Affirmed Aaa (sf)

...GBP25M Class B1a Notes, Downgraded to Aa2 (sf); previously on Mar 6, 2018 Aa1 (sf) Placed Under Review for Possible Downgrade

...EUR126M Class B1b Notes, Downgraded to Aa2 (sf); previously on Mar 6, 2018 Aa1 (sf) Placed Under Review for Possible Downgrade

...GBP17M Class C1a Notes, Affirmed A2 (sf); previously on May 12, 2017 Affirmed A2 (sf)

...EUR106M Class C1b Notes, Affirmed A2 (sf); previously on May 12, 2017 Affirmed A2 (sf)

**RATINGS RATIONALE**

The rating action is prompted by the downgrade of Barclays Bank PLC's long-term CR Assessment to A2(cr) from A1(cr), on review for possible downgrade. This counterparty acts as the swap provider in the transaction ([https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM\\_1116270](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1116270) ).

Moody's assessed the exposure to Barclays Bank PLC acting as swap counterparty. Moody's analysis considered the risks of additional losses on the notes if they were to become unhedged following a swap counterparty default by using the long-term CR Assessment as reference point for swap counterparties. Moody's concluded that the ratings of the classes B1a and B1b Notes are constrained by the swap agreement entered between the issuer and Barclays Bank PLC. As a result, Moody's downgraded the two notes. Moody's also concluded classes C1a and C1b are constrained by the swap agreement, but at the level that are consistent with the current ratings.

Moody's also affirmed the short term rating of the Class A1 Notes at P-1 (sf). The short-term rating of the Class A1 Notes addressed the promise and all the accrued interests at the next occurring "A1 Note Mandatory Transfer Date". Such short-term rating is primarily based on the short-term credit rating of Sheffield Receivables Corporation, the "A1 Note Conditional Purchaser".

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in September 2017. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

The analysis undertaken by Moody's at the initial assignment of these ratings for RMBS securities may focus

on aspects that become less relevant or typically remain unchanged during the surveillance stage. Please see Moody's Approach to Rating RMBS Using the MILAN Framework for further information on Moody's analysis at the initial rating assignment and the on-going surveillance in RMBS.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include (1) performance of the underlying collateral that is better than Moody's expected, (2) deleveraging of the capital structure and (3) improvements in the credit quality of the transaction counterparties.

Factors or circumstances that could lead to a downgrade of the ratings include (1) an increase in sovereign risk (2) performance of the underlying collateral that is worse than Moody's expected, (3) deterioration in the Notes' available credit enhancement and (4) deterioration in the credit quality of the transaction counterparties.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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