

Rating Action: Moody's takes rating actions in five UK RMBS Paragon transactions

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London, 06 March 2018 -- Moody's Investors Service has today upgraded the ratings of seven notes in Paragon Mortgages (No. 21) PLC, Paragon Mortgages (No. 22) PLC, Paragon Mortgages (No. 23) PLC and Paragon Mortgages (No. 24) PLC (Paragon No. 21, 22, 23 and 24). Moody's also placed on review for downgrade the ratings of two notes in Paragon Mortgages (No. 12) PLC and affirmed the ratings of eight notes in Paragon No. 21, 22, 23 and 24.

Issuer: Paragon Mortgages (No. 12) PLC

...GBP25M Class B1a Notes, Aa1 (sf) Placed Under Review for Possible Downgrade; previously on May 12, 2017 Upgraded to Aa1 (sf)

...EUR126M Class B1b Notes, Aa1 (sf) Placed Under Review for Possible Downgrade; previously on May 12, 2017 Upgraded to Aa1 (sf)

Issuer: Paragon Mortgages (No. 21) PLC

...GBP217.9M Class A Notes, Affirmed Aaa (sf); previously on May 12, 2017 Affirmed Aaa (sf)

...GBP17.7M Class B Notes, Affirmed Aaa (sf); previously on May 12, 2017 Upgraded to Aaa (sf)

...GBP8.1M Class C Notes, Upgraded to Aa1 (sf); previously on May 12, 2017 Upgraded to Aa2 (sf)

Issuer: Paragon Mortgages (No. 22) PLC

...EUR164M Class A1 Notes, Affirmed Aaa (sf); previously on Mar 25, 2015 Definitive Rating Assigned Aaa (sf)

...GBP151.7M Class A2 Notes, Affirmed Aaa (sf); previously on Mar 25, 2015 Definitive Rating Assigned Aaa (sf)

...GBP12M Class B Notes, Upgraded to Aaa (sf); previously on Mar 25, 2015 Definitive Rating Assigned Aa2 (sf)

...GBP12M Class C Notes, Upgraded to Aa1 (sf); previously on Mar 25, 2015 Definitive Rating Assigned A1 (sf)

Issuer: Paragon Mortgages (No.23) PLC

...EUR105M Class A1 Notes, Affirmed Aaa (sf); previously on Jul 23, 2015 Definitive Rating Assigned Aaa (sf)

...GBP188.6M Class A2 Notes, Affirmed Aaa (sf); previously on Jul 23, 2015 Definitive Rating Assigned Aaa (sf)

...GBP14.8M Class B Notes, Upgraded to Aaa (sf); previously on Jul 23, 2015 Definitive Rating Assigned Aa2 (sf)

...GBP15.8M Class C Notes, Upgraded to Aa1 (sf); previously on Jul 23, 2015 Definitive Rating Assigned A1 (sf)

Issuer: Paragon Mortgages (No.24) PLC

...EUR125M Class A1 Notes, Affirmed Aaa (sf); previously on Nov 19, 2015 Definitive Rating Assigned Aaa (sf)

...GBP208.3M Class A2 Notes, Affirmed Aaa (sf); previously on Nov 19, 2015 Definitive Rating Assigned Aaa

(sf)

...GBP19.3M Class B Notes, Upgraded to Aaa (sf); previously on Nov 19, 2015 Definitive Rating Assigned Aa2 (sf)

...GBP25.4M Class C Notes, Upgraded to Aa1 (sf); previously on Nov 19, 2015 Definitive Rating Assigned A1 (sf)

RATINGS RATIONALE

The upgrades in Paragon No. 21, 22, 23 and 24, are prompted by the increased credit enhancement of the affected notes.

The rating actions in Paragon Mortgages (No. 12) PLC follow the placement on review for downgrade of the Counterparty Risk (CR) assessment of Barclays Bank PLC, the swap provider in the transaction.

--Increased Credit Enhancement:

The credit enhancement for the most junior notes in Paragon No. 21, 22, 23 and 24 increased from 5% of pool balance at origination to 15.3%, 14.0%, 15.3% and 14.5% as of the last reporting date respectively.

-- Swap Counterparty Risks

Barclays Bank PLC long-term CR assessment was placed on review for downgrade on 22-February-2018 (please see the following: http://www.moodys.com/viewresearchdoc.aspx?docid=PR_379706).

Moody's assessed the exposure to Barclays Bank PLC, (A1(cr), review for possible downgrade) acting as swap counterparty in Paragon Mortgages (No.12) PLC. 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 CR Assessment as reference point for swap counterparty. The ratings of the B1b and B1a notes in Paragon Mortgages (No. 12) PLC are constrained by the swap exposure. As a result, Moody's placed both notes on review for downgrade.

-- Revision of Key Collateral Assumptions

Moody's conducted a loan by loan analysis and reassessed the collateral assumptions of all five Paragon transactions:

In Paragon Mortgages (No. 12) PLC, Moody's maintained the Expected Loss (EL) assumption at 1.25% and reduced the MILAN CE to 12% from 14%.

In Paragon No. 21, 22, 23 and 24, Moody's maintained the Expected Loss (EL) and MILAN CE assumptions.

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 for a copy of this methodology.

The analysis undertaken by Moody's at the initial assignment of 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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