

Rating Action: Moody's takes action on Four RMBS transactions following action on The Royal Bank of Scotland plc and Ulster Bank Ireland DAC

Global Credit Research - 13 Apr 2018

London, 13 April 2018 -- Moody's Investors Service ("Moody's") has today downgraded the ratings of two Notes in Paragon Mortgages (No.9) PLC ("Paragon 9") and confirmed the ratings of two Notes in RMAC SECURITIES No. 1 PLC Series 2006-NS1. Moody's affirmed the ratings of three Notes in Paragon 9 and of five Notes in RMAC SECURITIES No. 1 PLC Series 2006-NS1, which had sufficient credit enhancement to maintain the current rating of the affected Notes. Moody's has also upgraded the ratings of five Notes in CELTIC RESIDENTIAL IRISH MORTGAGE SECURITISATION NO. 14 and 15 LTD ("Celtic transactions") and the ratings of two Notes and one Counterparty Instrument Rating (CIR) in Paragon 9.

Today's downgrades primarily reflect the downgrade of the long-term counterparty risk assessment ("CR Assessment") of The Royal Bank of Scotland plc (RBS plc) which acts as swap counterparty for Paragon 9. Today's confirmations of the ratings of two Notes in RMAC SECURITIES No. 1 PLC Series 2006-NS1 reflect Moody's anticipation that remedial actions are to be taken following the downgrade of the long-term senior unsecured debt ratings of The Royal Bank of Scotland plc as well as the assessment that the level of credit enhancement, is sufficient to confirm the ratings of the affected Notes. Today's upgrades reflect the upgrade of the long term deposit rating of Ulster Bank Ireland DAC which acts as issuer account bank in the Celtic transactions and a decreased key collateral assumption as well as the increase in the levels of credit enhancement for the affected Notes in Paragon 9.

Today's rating action concludes the review for downgrade of two Notes in Paragon 9 and two Notes in RMAC SECURITIES No. 1 PLC Series 2006-NS1 and the review for upgrade of three Notes in Paragon 9, which were initiated on 20 February 2018 (http://www.moody's.com/viewresearchdoc.aspx?docid=PR_379484). This action also concludes the review for upgrade of five Notes in the Celtic transactions which was initiated on 8 February 2018 (http://www.moody's.com/viewresearchdoc.aspx?docid=PR_379251).

Issuer: Paragon Mortgages (No. 9) PLC

...GBP346M Class Aa Notes, Affirmed Aa1 (sf); previously on Jun 27, 2017 Affirmed Aa1 (sf)

...EUR355M Class Ab Notes, Affirmed Aa1 (sf); previously on Jun 27, 2017 Affirmed Aa1 (sf)

...USD60M Class Ac Notes, Affirmed Aa1 (sf); previously on Jun 27, 2017 Affirmed Aa1 (sf)

...GBP7M Class Ba Notes, Downgraded to A1 (sf); previously on Feb 20, 2018 Aa3 (sf) Placed Under Review for Possible Downgrade

...EUR29.5M Class Bb Notes, Downgraded to A1 (sf); previously on Feb 20, 2018 Aa3 (sf) Placed Under Review for Possible Downgrade

...GBP3M Class Ca Notes, Upgraded to A2 (sf); previously on Feb 20, 2018 A3 (sf) Placed Under Review for Possible Upgrade

...EUR66M Class Cb Notes, Upgraded to A2 (sf); previously on Feb 20, 2018 A3 (sf) Placed Under Review for Possible Upgrade

...Cross Currency Swap for Class Cb Notes, Upgraded to A1 (sf); previously on Feb 20, 2018 A3 (sf) Placed Under Review for Possible Upgrade

Issuer: CELTIC RESIDENTIAL IRISH MORTGAGE SECURITISATION NO. 14 LTD

...EUR1000M Class A2 Notes, Upgraded to Aa1 (sf); previously on Feb 8, 2018 Upgraded to Aa2 (sf) and Placed Under Review for Possible Upgrade

...EUR1000M Class A3 Notes, Upgraded to Aa1 (sf); previously on Feb 8, 2018 Upgraded to Aa2 (sf) and Placed Under Review for Possible Upgrade

Issuer: CELTIC RESIDENTIAL IRISH MORTGAGE SECURITISATION NO. 15 LTD

...EUR700M Class A1 Notes, Upgraded to Aa1 (sf); previously on Feb 8, 2018 Upgraded to Aa2 (sf) and Placed Under Review for Possible Upgrade

...EUR700M Class A2 Notes, Upgraded to Aa1 (sf); previously on Feb 8, 2018 Upgraded to Aa2 (sf) and Placed Under Review for Possible Upgrade

...EUR700M Class A3 Notes, Upgraded to Aa1 (sf); previously on Feb 8, 2018 Upgraded to Aa2 (sf) and Placed Under Review for Possible Upgrade

Issuer: RMAC SECURITIES No. 1 PLC Series 2006-NS1

...GBP385M Class A2a Notes, Affirmed Aa1 (sf); previously on Jul 27, 2017 Upgraded to Aa1 (sf)

...EUR400M Class A2c Notes, Affirmed Aa1 (sf); previously on Jul 27, 2017 Upgraded to Aa1 (sf)

...EUR60.5M Class B1c Notes, Affirmed A3 (sf); previously on Jun 27, 2017 Affirmed A3 (sf)

...GBP30M Class M1a Notes, Confirmed at Aa1 (sf); previously on Feb 20, 2018 Aa1 (sf) Placed Under Review for Possible Downgrade

...EUR59M Class M1c Notes, Confirmed at Aa1 (sf); previously on Feb 20, 2018 Aa1 (sf) Placed Under Review for Possible Downgrade

...GBP23.25M Class M2a Notes, Affirmed Aa3 (sf); previously on Jun 27, 2017 Upgraded to Aa3 (sf)

...EUR20M Class M2c Notes, Affirmed Aa3 (sf); previously on Jun 27, 2017 Upgraded to Aa3 (sf)

RATINGS RATIONALE

Today's actions reflect (1) the downgrade of the long-term CR Assessment of RBS plc acting as swap counterparty in Paragon 9, (2) the upgrade of the long-term deposit rating of Ulster Bank Ireland DAC which acts as issuer account bank in the Celtic transactions; and (3) deal deleveraging resulting in an increase in credit enhancement and decrease in key collateral assumption for the affected tranches in Paragon 9.

-- Swap Counterparty Risks

On 4 April 2018, Moody's downgraded the long-term CR Assessments of RBS plc and Royal Bank of Scotland N.V., London Branch (RBS NV) to A3 (cr) (from A2(cr), on review for downgrade). At the same time, Moody's downgraded the long-term senior unsecured debt ratings of RBS plc and RBS NV to Baa2 (from A3, on review for downgrade). In light of these downgrades, Moody's reassessed the exposure to RBS NV and RBS plc as swap counterparty in our rated transactions.

RBS plc acts as swap provider to Paragon 9 and RMAC SECURITIES No. 1 PLC Series 2006-NS1.

Moody's determines the probability of a transaction becoming unhedged as a function of (i) the CR Assessment of the swap counterparty and (ii) the value of any rating triggers that require the counterparty to take remedial action upon it being downgraded below a certain rating threshold.

Moody's concluded that, by reason of the downgrade of RBS plc's CR Assessment, the ratings of classes Ba, Bb, Ca and Cb in Paragon 9 are constrained by swap counterparty exposure. As a result, Moody's downgraded the ratings of classes Ba and Bb and the upgrade of the ratings of classes Ca and Cb was limited.

In respect of classes M1a, M1c, M2a, and M2c issued by RMAC SECURITIES No. 1 PLC Series 2006-NS1, Moody's concluded that the 4 April 2018 downgrade of RBS plc's CR Assessment has not increased the magnitude of the pre-existing rating constraint attributable to swap counterparty exposure and, therefore, has not taken any rating actions in relation to the downgrade.

The recent rating downgrade of RBS plc resulted in rating trigger breaches under the swaps provided to Paragon 9 and RMAC SECURITIES No. 1 PLC Series 2006-NS1. In each case, the swap agreement contemplates several alternative remedial actions to be taken by the counterparty, which are broadly: (a)

transferring the swap to an appropriately rated third party, (b) obtaining a guarantee by an appropriately rated guarantor, or (c) taking some other action such that the downgrade of RBS does not have a negative rating impact on the Notes. We currently assume that RBS plc will take remedial action in accordance with the respective swap agreements. However, we will monitor this assumption and, if we cease to believe (with sufficient confidence) that remedial action will be taken, we will re-evaluate the probability that the relevant transaction(s) will become unhedged, which may result in further rating actions.

-- Account Bank Risk

Moody's assesses the default probability of the transactions' account bank providers by referencing the bank's deposit rating. The long term deposit rating of Ulster Bank Ireland DAC was upgraded from Baa2 to Baa1 on 4 April 2018. The ratings of the Notes in the Celtic transactions are constrained by the issuer account bank exposures. As a result, Moody's upgraded all five Notes.

-- Revision of Key Collateral Assumptions

Moody's has not reassessed its lifetime loss expectation nor its MILAN CE assumption for the transactions as part of this rating action.

However, Moody's decreased the MILAN CE assumption from 14% to 12% for Paragon 9 effective 20 February 2018. Moody's has factored this in its analysis to conclude the review for upgrade of classes Ca, Cb and Cross Currency Swap for class Cb initiated on 20 February 2018.

-- Increase in Available Credit Enhancement

In Paragon 9, the pro-rata amortization after the step-up date (May 2010) led to the increase in the credit enhancement available for classes Ca and class Cb Notes to 5.4% in February 2018 from 1.8% at closing date. This is factored in our upgrade of the ratings of classes Ca and Cb.

-- Counterparty Instrument Rating (CIR)

Our approach to assigning CIRs on cross currency swaps involves two steps. First, we calculate the expected loss on the hypothesis that the counterparty will not default, and convert this to a rating using our idealized cumulative expected default and loss rates. Second, we assess the degree of linkage to the swap counterparty and, where appropriate, cap the CIR accordingly.

The expected loss for the counterparty will usually match that of the pari passu-ranking Notes without considering the linkage to the swap counterparty; in this case, Class Cb.

The second step, counterparty linkage analysis, determines whether the rating from the first step should be further adjusted due to linkage to the counterparty itself. The analysis incorporates a probability uplift and a severity modifier. Moody's now gives a 3-notch probability uplift. Probability uplift assesses whether the swap will be transferred to a different counterparty before current counterparty defaults as well as the likelihood of the swap being out-the-money at counterparty default. Severity modifier represents the potential degree of loss to the counterparty resulting from a subordinated termination payment.

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.

Credit Rating: A Credit Rating is an opinion from Moody's Investors Service (MIS) regarding the creditworthiness of an entity, a debt or financial obligation, debt security, preferred share or other financial instrument, or of an issuer of such a debt or financial obligation, debt security, preferred share or other financial instrument, issued using an established and defined ranking system of rating categories.

Rating Review: A rating review indicates that a rating is under consideration for a change in the near term. A rating can be placed on review for upgrade (UPG), downgrade (DNG), or more rarely with direction uncertain (UNC). A review may end with a rating being upgraded, downgraded, or confirmed without a change to the rating. Ratings on review are said to be on Moody's "Watchlist" or "On Watch".

For further information on these definitions or on Moody's ratings symbols, please consult the Rating Symbols and Definitions document on www.moodys.com

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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