

Ratings Raised On Paragon Mortgages 21's Class B And C U.K. RMBS Notes; Class A Rating Affirmed

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OVERVIEW

- We have reviewed Paragon Mortgages 21 by conducting our credit and cash flow analysis under our European residential loans criteria.
- Following our review, we have raised our ratings on the class B and C notes.
- At the same time, we have affirmed our rating on the class A notes.
- The transaction is backed by pools of primarily buy-to-let loans originated by Paragon Mortgages and Mortgage Trust Services.

LONDON (S&P Global Ratings) Feb. 13, 2018--S&P Global Ratings today raised its credit ratings on Paragon Mortgages (No. 21) PLC's class B and C notes. At the same time, we have affirmed our rating on the class A notes (see list below).

Today's rating actions follow our credit and cash flow analysis of the transaction using the most recent information that we have received and the application of our European residential loans criteria and our counterparty criteria (see "Related Criteria").

The collateral performance has been stable over the past 12 months, with arrears levels consistently lower than those in our U.K. buy-to-let residential mortgage-backed securities (RMBS) index (see "U.K. RMBS Index Report Q3 2017," published on Nov. 22, 2017). As of December 2017, arrears

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over three months at 0.24% were 2.96% lower than our index level.

Our weighted-average foreclosure frequency (WAFF) assumptions have increased. This is mainly driven by an increase in loans that have switched from a fixed rate to a floating rate since our previous review (see "Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 15 And 21," published on Dec. 9, 2016). In our view, the increase of fixed-rate buy-to-let loans switching to a floating-rate exposes the transaction to a higher risk of increased arrears. Fixed rents may no longer match the borrower's payment, resulting in possible payment shock for the borrower. Our weighted-average loss severity (WALS) assumptions have fallen due to the decrease in the weighted-average current-loan-to-value ratio offsetting the increased repossession market value declines in all rating scenarios.

Rating level	WAFF (%)	WALS (%)
AAA	29.08	50.93
AA	20.32	42.28
A	15.83	26.78
BBB	11.18	17.08
BB	6.39	10.12
B	5.14	4.59

The transaction benefits from a type of funded nonamortizing reserve fund. The reserve fund is split into a nonliquidity component, which the issuer can use to fund the principal deficiency ledger, and a liquidity component, which is based on the size of the class A to C notes.

Available credit enhancement has increased for all classes of notes due to a 60% pay down of the pool since our previous review. A substantial proportion of the pool had interest rate product switch dates in 2016, and about 40% have them in the next two years. Once loans switch from a fixed rate to a floating rate or from a discount to a full margin, borrowers typically remortgage or are offered a different product. We expect a high percentage of these loans to prepay based on the level of redemptions observed between 2016 and 2017. We have considered this scenario in our high prepayment stresses.

As a result of the asset paydown, the nonamortizing reserve funds, and the sequential amortization, the transaction's available credit enhancement has increased. This increase is now commensurate with higher ratings for the class B and C notes. We have therefore raised our ratings on these classes of notes.

Our analysis indicates that the available credit enhancement for the class A notes is commensurate with the currently assigned rating. We have therefore affirmed our rating on this class of notes.

Paragon Mortgages 21 securitizes pools of primarily buy-to-let loans originated by Paragon Mortgages Ltd. and Mortgage Trust Services PLC.

RELATED CRITERIA

- Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- Criteria - Structured Finance - General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

RELATED RESEARCH

- U.K. RMBS Index Report Q3 2017, Nov. 22, 2017
- Outlook Assumptions For The U.K. Residential Mortgage Market, Aug. 21, 2017
- Low Lending Rates Continue To Fuel Europe's Housing Market Recovery, Aug. 1 2017
- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Various Rating Actions Taken In U.K. RMBS Transactions Paragon Mortgages 15 And 21, Dec. 9, 2016

RATINGS LIST

Class	Rating
To	From

Ratings Raised On Paragon Mortgages 21's Class B And C U.K. RMBS Notes; Class A Rating Affirmed

Paragon Mortgages (No. 21) PLC
£250 Million Mortgage-Backed Floating-Rate Notes

Ratings Raised

B	AAA (sf)	AA (sf)
C	AA+ (sf)	A+ (sf)

Rating Affirmed

A	AAA (sf)
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