



Fitch Takes Rating Action on Paragon Mortgages No. 10, 11 and 12

Fitch Ratings-London-15 February 2019: Fitch Ratings has upgraded Paragon Mortgages No. 11 plc's class C notes and affirmed Paragon Mortgages No. 10 plc and Paragon Mortgages No. 12 plc, as follows:

Paragon Mortgages No. 10

Class A1 affirmed at 'AAAsf'; Outlook Stable

Class A2a affirmed at 'AAAsf'; Outlook Stable

Class A2b affirmed at 'AAAsf'; Outlook Stable

Class B1a affirmed at 'AAAsf'; Outlook Stable

Class B1b affirmed at 'AAAsf'; Outlook Stable

Class C1a affirmed at 'Asf'; Outlook Stable

Class C1b affirmed at 'Asf'; Outlook Stable

Paragon Mortgages No. 11

Class A1 affirmed at 'AAAsf'; Outlook Stable

Class A2a affirmed at 'AAAsf'; Outlook Stable

Class A2b affirmed at 'AAAsf'; Outlook Stable

Class B1a affirmed at 'AAAsf'; Outlook Stable

Class B1b affirmed at 'AAAsf'; Outlook Stable

Class C1b upgraded to 'A+sf' from 'Asf'; Outlook Stable

Class C1b - CSO upgraded to 'A+sf' from 'Asf'; Outlook Stable

Paragon Mortgages No. 12

Class A1 affirmed at 'AAAsf'/'F1sf'; Outlook Stable

Class A2a affirmed at 'AAAsf'; Outlook Stable

Class A2b affirmed at 'AAAsf'; Outlook Stable

Class A2c affirmed at 'AAAsf'; Outlook Stable

Class B1a affirmed at 'AAAsf'; Outlook Stable

Class B1b affirmed at 'AAAsf'; Outlook Stable

Class C1a affirmed at 'Asf'; Outlook Stable

Class C1b affirmed at 'Asf'; Outlook Stable

Class C1b - CSO affirmed at 'Asf'; Outlook Stable

The transactions are buy-to-let (BTL) RMBS transactions backed by loans originated between 2005 and 2006 by Paragon Mortgage Limited and Mortgage Trust Limited, all subsidiaries of Paragon Bank plc.

KEY RATING DRIVERS

Stable Asset Performance

Loans with arrears greater than three months have remained stable over the last 12 months, ranging from 0.06% (Paragon 12) to 0.35% (Paragon 10) of the current portfolio balance. Given the BTL nature of the underlying pools, borrowers in arrears by more than two months are predominantly managed by Paragon via its receiver of rent policy, where the full rental stream is diverted to Paragon as administrator and used towards

clearing arrears. Paragon's extensive use of its receiver of rent policy has contributed towards the low level of delinquencies across the series. The level of cumulative repossessions in Paragon No. 10, 11 and 12 currently stand at 3.3%, 3.0% and 2.2%, respectively, which have turned into cumulative losses below 0.8%.

Credit Enhancement (CE)

The stable asset performance and the non-amortising reserve funds in Paragon 10, 11 and 12 have contributed to the increase in CE in the series. The increased CE and stable asset performance have contributed to the rating actions.

Rating Cap for Junior Notes

CE available to the junior notes is only provided by the first loss fund, which can be either invested in authorised investments or held in the transaction account bank at Barclays Bank plc. In Fitch's opinion, these notes are credit linked to Barclays' Long-Term Issuer Default Rating (IDR), hence the ratings of the junior notes in Paragon 10, 11, 12 are capped at Barclays' IDR. Fitch upgraded Barclays in December 2018 to 'A+' from 'A', increasing the cap for these notes and allowing the upgrade of Paragon 11 class C notes. The junior notes in Paragon 10 and 12 did not pass the 'A+sf' stresses in Fitch cash flow model; so their ratings have been affirmed at 'Asf'.

RATING SENSITIVITIES

Paragon Mortgages pools are 100% BTL and the notes' ratings could be impacted by changes in the market conditions and economic environment.

The ratings of the junior notes in Paragon 10, 11, 12 are capped at Barclays' IDR. Any changes in the bank's IDR may result in rating actions on these notes.

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 pools and the transactions. 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 pools ahead of the transactions' initial closing. The subsequent performance of the transactions 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 and together with the assumptions referred to above, 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 Finance plc as at 30 November 2018 (Paragon Mortgages No. 10), 31 December 2018 (Paragon Mortgages No. 11), 31 October 2018 (Paragon Mortgages No. 12)
- Transaction reporting provided by Paragon Finance plc as at 21 December 2018 (Paragon Mortgages No. 10), 16 January 2019 (Paragon Mortgages No. 11), 15 November 2018 (Paragon Mortgages No. 12)

MODELS

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

ResiGlobal
ResiGlobal.

EMEA RMBS Surveillance Model
EMEA RMBS Surveillance Model.

EMEA Cash Flow Model
EMEA Cash Flow Model.

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Additional information is available on www.fitchratings.com

Applicable Criteria

EMEA RMBS Rating Criteria (pub. 11 Jan 2019)

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 02 Feb 2018)

Fitch's Foreign-Currency Stress Assumptions for Residual Foreign-Exchange Exposures in Covered Bonds and Structured Finance – Excel File (pub. 30 Oct 2017)

Global Structured Finance Rating Criteria (pub. 15 May 2018)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 01 Aug 2018)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 01 Aug 2018)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018)

United Kingdom Residential Mortgage Rating Criteria Addendum (pub. 18 May 2018)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

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