



## Fitch Upgrades Paragon Mortgages No. 22, 23 and 24

Fitch Ratings-London-28 February 2019: Fitch Ratings has upgraded Paragon Mortgages No. 22, 23 and 24's class C notes and affirmed all other notes, as follows:

### Paragon Mortgages (No. 22) PLC

Class A1 affirmed at 'AAAsf'; Outlook Stable

Class A2 affirmed at 'AAAsf'; Outlook Stable

Class B affirmed at 'AAAsf'; Outlook Stable

Class C upgraded to 'AAAsf' from 'AAsf'; Outlook Stable

### Paragon Mortgages (No. 23) PLC

Class A1 affirmed at 'AAAsf'; Outlook Stable

Class A2 affirmed at 'AAAsf'; Outlook Stable

Class B affirmed at 'AAAsf'; Outlook Stable

Class C upgraded to 'AAAsf' from 'AAsf'; Outlook Stable

### Paragon Mortgages (No. 24) PLC

Class A1 affirmed at 'AAAsf'; Outlook Stable

Class A2 affirmed at 'AAAsf'; Outlook Stable

Class B affirmed at 'AAAsf'; Outlook Stable

Class C upgraded to 'AAAsf' from 'AAsf'; Outlook Stable

The transactions are buy-to-let (BTL) RMBS transactions backed by loans originated between 2014 and 2015 by Paragon Mortgages (2010) Limited, a subsidiary of Paragon Bank plc.

### KEY RATING DRIVERS

#### Strong Asset Performance

Loans with arrears greater than three months have remained stable at under 0.6% for Paragon 22, 23 and 24, as of the latest investor reports.

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 therefore contributed towards the low level of delinquencies across the series.

#### High Prepayments

Given the high percentage of discounted fixed rate loans switching to a high rate floating loan in two or three years, these transactions have high levels of prepayments as the majority of the loans have come to the end of their fixed periods. The annual prepayment rates in Paragon 22, 23 and 24 are between 20 and 30% as per the latest investor reports.

#### Increased Credit Enhancement (CE), Excess Spread

The stable asset performance, high prepayment rates and the non-amortising reserve funds in Paragon 22, 23 and 24 have contributed to the increase in CE in the series. In addition, the transfer of funds from the liquidity reserve to the general reserve has also contributed to increased CE.

Excess spread has built up due to asset switches from lower paying fixed rates to higher paying floating rate loans. This has led to higher excess spread in the transactions.

The CE build up together with the increased excess spread have contributed to the upgrades of the junior notes' ratings in the series.

#### RATING SENSITIVITIES

As the notes are at the maximum achievable level they cannot be further upgraded.

Paragon Mortgages' pools are 100% BTL and the notes' ratings could be impacted by changes in the market conditions and economic environment. Material increase in the default level or failure to implement documented remedial actions in the event of a counterparty downgrade could lead to a downgrade.

#### 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.

Prior to the transactions closing, Fitch reviewed the results of a third party assessment conducted on the asset portfolio information and concluded that there were no findings that affected the rating analysis. Prior to the transactions closing, Fitch conducted a review of a small targeted sample of Paragon's origination files and found the information contained in the reviewed files to be adequately consistent with the originator's policies and practices and the other information provided to the agency about the asset portfolios.

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 31 December 2018 (Paragon Mortgages No. 23 and 24) and 30 November 2018 (Paragon Mortgages No. 22)
- Transaction reporting provided by Paragon Finance plc as at 17 January 2019 (Paragon Mortgages No. 23 and 24) and 17 December 2018 (Paragon Mortgages No. 22)

#### 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  
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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)

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

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