



Fitch Upgrades Paragon Mortgages No. 12; Outlook Stable

Fitch Ratings - London - 15 October 2019:

Fitch Ratings has upgraded Paragon Mortgages No. 12's class C notes and affirmed the rest. A full list of rating actions is detailed below.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Paragon Mortgages (No. 12) Plc		
Class A1 XS0261644941	LT AAAsf ● Affirmed	AAAsf ●
Class A1 XS0261644941	ST WDsf Withdrawn	F1sf
Class A2a XS0261646136	LT AAAsf ● Affirmed	AAAsf ●
Class A2b XS0261646565	LT AAAsf ● Affirmed	AAAsf ●
Class A2c 69913BAB2	LT AAAsf ● Affirmed	AAAsf ●
Class B1a XS0261647886	LT AAAsf ● Affirmed	AAAsf ●
Class B1b XS0261648850	LT AAAsf ● Affirmed	AAAsf ●
Class C1a XS0261650161	LT A+sf ◆ Upgrade	Asf ●
Class C1b Currency Swap Obligations	LT A+sf ◆ Upgrade	Asf ●
Class C1b XS0261650674	LT A+sf ◆ Upgrade	Asf ●

Transaction Summary

The Paragon Mortgages No. 12 is a buy-to-let (BTL) RMBS transaction backed by loans originated between 2005 and 2006 by Paragon Mortgage Limited and Mortgage Trust Limited, all subsidiaries of Paragon Bank plc.

Class A1 ShortTerm Rating Withdrawn

Fitch is withdrawing the short-term rating of Paragon 12 class A1 notes as it is no longer considered by Fitch to be relevant to the agency's coverage because of the termination of the remarketing agreement. Paragon 12 class A1 notes were subject to a remarketing agreement and a conditional purchase agreement intended to facilitate their eligibility for purchase by money-market funds. We received written notice that the A1 note conditional purchaser purchased the notes on 15 May 2019. The short-term rating of the class A1 notes is 'F1', reflecting the liquidity commitment from Barclays (A+/RWN/F1) towards the conditional purchaser, who had an obligation to acquire the class A1 notes in case of failure of their yearly remarketing.

KEY RATING DRIVERS

Under Criteria Observation Resolution

Fitch had placed Paragon 12 ratings Under Criteria Observation (UCO) following the publication of its UK RMBS Rating Criteria on 4 October 2019. Fitch has undertaken a full review of the transaction with the new criteria and affirmed the class A1, A2 and B notes and upgraded the class C notes.

Stable Asset Performance

Loans with arrears greater than three months have remained stable over the last 12 months at 0.4% of the current portfolio balance in July 2019. Given the BTL nature of the underlying pool, 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. The level of cumulative repossessions currently stands at 2.3%, which have turned into cumulative losses of below 0.6%.

Rising Credit Enhancement (CE)

The stable asset performance and the non-amortising reserve funds in Paragon 12 have contributed to an increase in CE in the series. The increased CE and stable asset performance have contributed to today's rating actions.

Interest Only Concentration

The transaction has a material concentration of interest-only (IO) loans maturing within a three-year period during the lifetime of the transaction, peaking at 44.4% between 2029 and 2031. Where a concentration is present, Fitch will derive IO concentration's weighted average foreclosure frequency (WAFF) and apply in the analysis the higher of IO concentration WAFF and the standard portfolio WAFF for each rating level. For this pool Fitch has applied the FF based on the IO concentration WAFF.

Rating Cap for class C Notes

CE available to the class C 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, the

ratings of the class C notes are capped at Barclays' Long-Term Issuer Default Rating IDR (A+/RWN/F1). The class C notes benefited from a lower currency risk exposure following the conversion of the class A1 notes from US dollar to sterling, driving the note upgrade to 'A+sf'.

Class A1 ShortTerm Rating Withdrawn

Fitch is withdrawing the short-term rating of Paragon 12 class A1 notes as it is no longer considered by Fitch to be relevant to the agency's coverage because of the termination of the remarketing agreement. Paragon 12 class A1 notes were subject to a remarketing agreement and a conditional purchase agreement intended to facilitate their eligibility for purchase by money market funds. We received written notice that the A1 note conditional purchaser purchased the notes on 15 May 2019. The short-term rating of the class A1 notes is 'F1', reflecting the liquidity commitment from Barclays towards the conditional purchaser, who had an obligation to acquire the class A1 notes in case of failure of their yearly remarketing.

RATING SENSITIVITIES

Paragon Mortgages No. 12 pool is 100% BTL and note ratings could be impacted by changes in BTL market conditions and the UK economic environment.

The rating of the class C notes are capped at Barclays's IDR. Any changes in the bank's IDR may result in rating actions on these notes.

USE OF THIRD PARTY DUE DILIGENCE PURSUANT TO SEC 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 pool and the transaction. 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 pool ahead of the transaction's initial closing. The subsequent performance of the transaction 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

Loan-by-loan data provided by Paragon Finance plc as at 31 July 2019

Transaction reporting provided by Paragon Finance plc as at 15 August 2019

MODELS

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

ResiGlobal: <https://www.fitchratings.com/site/structuredfinance/rmbs/resiglobal>

EMEA Cash Flow Model: <https://www.fitchratings.com/site/structuredfinance/emeacfm>

Additional information is available on www.fitchratings.com

Applicable Criteria

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

Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds (pub. 08 Mar 2019)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 18 Apr 2019)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 18 Apr 2019)

Global Structured Finance Rating Criteria (pub. 02 May 2019)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 27 Jun 2019)

UK RMBS Rating Criteria (pub. 04 Oct 2019)

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Dodd-Frank Rating Information Disclosure Form

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