



Fitch Affirms Paragon Mortgages (No. 25); Upgrades Paragon Mortgages (No. 26)

Fitch Ratings - London - 15 January 2020:

Fitch Ratings has affirmed Paragon Mortgages (No. 25) PLC (Paragon 25) and upgraded Paragon Mortgages (No. 26) PLC (Paragon 26), as follows:

RATING ACTIONS		
ENTITY/DEBT	RATING	PRIOR
Paragon Mortgages (No.25) PLC		
A XS1785818649	LT AAAsf ● Affirmed	AAAsf ●
B XS1785821437	LT AAAsf ● Affirmed	AAAsf ●
C XS1785821940	LT A-sf ● Affirmed	A-sf ●
D XS1785822088	LT BBB-sf ● Affirmed	BBB-sf ●
Paragon Mortgages (No. 26) PLC		
A1 XS1938530646	LT AAAsf ● Affirmed	AAAsf ●
A2 XS1938530729	LT AAAsf ● Affirmed	AAAsf ●
B XS1938531024	LT AA+sf ● Affirmed	AA+sf ●
C XS1938531370	LT A+sf ● Upgrade	Asf ●
D XS1938531701	LT BBB+sf ● Upgrade	BBBsf ●

Transaction Summary

The transactions are the 25th and 26th from the Paragon series consisting of buy-to-let (BTL) mortgages originated by Paragon Mortgages (2010) Limited, Paragon Bank plc and other members of the Paragon Banking Group..

KEY RATING DRIVERS

UK RMBS Rating Criteria

The rating actions take into account the new UK RMBS Rating Criteria dated 4 October 2019. The notes' ratings have been removed from Under Criteria Observation. The portfolios of both transactions are composed entirely of BTL loans. The upgrades and affirmations are driven by Fitch's application of the sector-level assumptions for BTL UK RMBS deals.

Strong Asset Performance

Asset performance has remained strong, with arrears by more than one monthly payment at 0.23% (Paragon 25) and 0.05% (Paragon 26) as of November 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 contributed towards the low level of delinquencies across the series. Prepayments for both transactions have not peaked at high levels as previous post crisis Paragon transactions as the pools are still mostly on fixed rates.

Product Switches

While the switches in the repayment types are limited, before the step-up date there are only minor limitations on the potential switches regarding any interest rate conversions. Fitch has therefore modelled extensive use of the interest rate conversions to stress any excess spread in the asset portfolio and hedging interest rate mismatches.

Revolving Transaction

Paragon 25 features a five-year revolving period, of which one and a half year has elapsed, which allows new assets to be added to the portfolio. While the replenishment criteria mitigate risks about the potential migration of the portfolio's credit profile, the risk of some deterioration during the revolving period remains. Fitch assumed changes to the portfolio characteristics, giving credit to the replenishment criteria listed in the transaction documentation where relevant.

Class A Scheduled Amortisation

After the first year of fully revolving period, credit enhancement has started to build up in line with the scheduled amortisation from August 2019. Principal on Paragon 25 class A notes will be paid according to a target scheduled amortisation until the end of the revolving period in May 2023, while the remaining principal amounts during the revolving period can be used by the issuer to purchase new assets.

RATING SENSITIVITIES

As the pools are 100% BTL, the notes' ratings could be impacted by changes in market conditions and economic environment. Material increase in the defaults level or failure to comply with remedial actions for counterparty's breach of triggers could lead to a downgrade.

CRITERIA VARIATION

For the Paragon 25 transaction Fitch applied the following variation to its published criteria.

Fitch varied the constant prepayment rate assumptions, as outlined in Fitch's UK RMBS Rating Criteria, for the remaining three and half years of the envisaged revolving period to match the target scheduled amortisation of the class A notes during the revolving period and address potential over-hedge. The application of the variation did not have a rating impact.

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 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 plc as at 30 October 2019

Transaction reporting provided by Paragon as at 15 November 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>

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is typically a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on Paragon 25 and Paragon 26, either due to their nature or the way in which they are being managed.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg

Additional information is available on www.fitchratings.com

Applicable Criteria

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

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)

UK RMBS Rating Criteria (pub. 04 Oct 2019)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 06 Dec 2019)

Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds (Excel) (pub. 06 Dec 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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