FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Paragon Mortgage No. 12, 13 & 14 Junior Notes; Removes RWN

Fri 16 Oct, 2020 - 12:20 PM ET

Fitch Ratings - London - 16 Oct 2020: Fitch Ratings has affirmed Paragon Mortgage No. 12, 13 and 14 junior notes and removed them from Rating Watch Negative (RWN). A Negative Outlook has been assigned. A full list of rating actions is provided below.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Paragon Mortgages (No. 13) Plc				
• Class C1a XS0272536284	LT	A+sf Rating Outlook Negative	Affirmed	A+sf Rating Watch Negative
• Class C1b XS0272536524	LT	A+sf Rating Outlook Negative	Affirmed	A+sf Rating Watch Negative

ENTITY/DEBT	RATING	PRIOR
Paragon Mortgages (No. 14) PLC		

VIEW ADDITIONAL RATING DETAILS

In relation to Paragon Mortgages No. 12 and 14 C1b credit swap obligations (CSO), Fitch's Global Structured Finance Rating Criteria expect a rating action on a note tranche to result in a corresponding rating action on the related rated swap obligations.

TRANSACTION SUMMARY

Paragon Mortgages No.12, 13 and 14 are RMBS transactions backed by buy-to-let (BTL) loans originated between 2005 and 2007 by Paragon Mortgages Limited and Mortgage Trust Limited, all subsidiaries of The Paragon Banking Group.

KEY RATING DRIVERS

Counterparty Rating off RWN

Today's rating action follows the recent rating affirmation of Barclays Bank plc, the account bank for the Paragon 12, 13 and 14 transactions, and its removal from RWN. The Negative Outlook reflects that of Barclays Bank plc. The bank was placed on RWN in April due to the coronavirus outbreak (see "Fitch Places Barclays' Ratings on Negative Watch on Coronavirus Outbreak" available at www.fitchratings.com).

The credit enhancement (CE) available to the junior notes of Paragon 12 to 14 is solely 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 and therefore capped at Barclays Bank plc's Long-Term Issuer Default Rating (IDR).

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/ downgrade:

Paragon Mortgages class C1a and C1b are capped at Barclays plc's Long-Term Issuer Default Rating (IDR), whose Rating Watch Negative was revised to Outlook Negative as at 12 October 2020, heightening an increased probability of a negative rating change over the next 18 months. Future changes to Barclays Bank plc's IDR could trigger an event driven rating action on the notes of these transactions.

Factors that could, individually or collectively, lead to rating positive action/ upgrade:

The highest achievable 'A+sf' rating for these notes is equal to Barclays Bank plc's Long-Term IDR. In Fitch's view, structural dependence on the counterparty is excessive as CE provided to these classes is in the form of a cash reserve held by the counterparty. An upgrade of the notes is conditional on an upgrade of the Long-Term IDR of the relevant counterparty.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Structured Finance transactions have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of seven notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of seven notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAAsf' to 'Dsf'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

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 not conducted any checks on the consistency and plausibility of the information it has received about the performance of the asset pools and the transactions. 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.

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.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The junior notes of Paragon 12, 13 and 14 are credit linked to Barclays Bank plc' 'A+' Long-Term IDR.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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APPLICABLE CRITERIA

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

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

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 29 Jan 2020)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 29 Jan 2020)

Global Structured Finance Rating Criteria (pub. 17 Jun 2020) (including rating assumption sensitivity)

UK RMBS Rating Criteria (pub. 02 Jul 2020) (including rating assumption sensitivity)

Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Sep 2020)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Paragon Mortgages (No. 12) Plc	EU Issued
Paragon Mortgages (No. 13) Plc	EU Issued
Paragon Mortgages (No. 14) PLC	EU Issued

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Structured Finance Structured Finance: RMBS Europe United Kingdom