

Rating Action: Moody's upgrades ratings in Paragon Mortgages (No. 12) PLC and Paragon Mortgages (No. 15) PLC

13 Feb 2020

London, 13 February 2020 -- Moody's Investors Service ("Moody's") has today upgraded the ratings of four notes in Paragon Mortgages (No. 12) PLC and Paragon Mortgages (No. 15) PLC. The rating action reflects the upgrade of Barclays Bank PLC's Counterparty Risk assessment ("CR assessment") to A1(cr) from A2(cr) acting as swap counterparty in both transactions and, for Paragon Mortgages (No. 12) PLC, the reduced swap exposure and, for Paragon Mortgages (No. 15) PLC, the increased levels of credit enhancement.

Moody's affirmed the ratings of the notes that had sufficient credit enhancement to maintain the current rating on the affected notes.

Issuer: Paragon Mortgages (No. 12) PLC

- ...GBP815.2M Class A1 Notes, Affirmed Aaa (sf); previously on Apr 17, 2018 Affirmed Aaa (sf)
- ...GBP145M Class A2a Notes, Affirmed Aaa (sf); previously on Apr 17, 2018 Affirmed Aaa (sf)
- ...EUR245M Class A2b Notes, Affirmed Aaa (sf); previously on Apr 17, 2018 Affirmed Aaa (sf)
- ...US\$311M Class A2c Notes, Affirmed Aaa (sf); previously on Apr 17, 2018 Affirmed Aaa (sf)
- ...GBP25M Class B1a Notes, Upgraded to Aa1 (sf); previously on Apr 17, 2018 Downgraded to Aa2 (sf)
- ...EUR126M Class B1b Notes, Upgraded to Aa1 (sf); previously on Apr 17, 2018 Downgraded to Aa2 (sf)
- ...GBP17M Class C1a Notes, Affirmed A2 (sf); previously on Apr 17, 2018 Affirmed A2 (sf)
- ...EUR106M Class C1b Notes, Affirmed A2 (sf); previously on Apr 17, 2018 Affirmed A2 (sf)

Issuer: Paragon Mortgages (No. 15) PLC

- ...US\$1000M Class A1 Notes, Affirmed Aaa (sf); previously on Feb 21, 2013 Confirmed at Aaa (sf)
- ...GBP209.5M Class A2a Notes, Affirmed Aaa (sf); previously on Feb 21, 2013 Confirmed at Aaa (sf)
- ...EUR110M Class A2b Notes, Affirmed Aaa (sf); previously on Feb 21, 2013 Confirmed at Aaa (sf)
- ...US\$150M Class A2c Notes, Affirmed Aaa (sf); previously on Feb 21, 2013 Confirmed at Aaa (sf)
- ...GBP17M Class B1a Notes, Upgraded to Aa1 (sf); previously on Jul 19, 2007 Definitive Rating Assigned Aa2 (sf)
- ...EUR85.5M Class B1b Notes, Upgraded to Aa1 (sf); previously on Jul 19, 2007 Assigned Aa2 (sf)
- ...EUR110.5M Class C1b Notes, Affirmed A2 (sf); previously on Jul 19, 2007 Definitive Rating Assigned A2 (sf)

RATINGS RATIONALE

The rating action is prompted by the upgrade of Barclays Bank PLC's Counterparty Risk assessment ("CR assessment") to A1(cr) from A2(cr) acting as swap counterparty in both transactions and, for Paragon Mortgages (No. 12) PLC, the reduced swap exposure and, for Paragon Mortgages (No. 15) PLC, the increased levels of credit enhancement.

Today's rating action also took into account the increased uncertainty relating to the impact of the performance of the UK economy on the transaction over the next few years, due to the on-going discussions relating to the final Brexit agreement.

Counterparty Exposure

Today's rating actions took into consideration the notes' exposure to relevant counterparties, such as servicer, account banks or swap providers.

Moody's assessed the exposure to Barclays Bank PLC acting as swap counterparty. Barclays Bank PLC's CR assessment was upgraded to A1 (cr) from A2(cr) on 29 January 2020 (see http://www.moodys.com/viewresearchdoc.aspx?docid=PR_417506). Moody's analysis considered the risks of additional losses on the notes if they were to become unhedged following a swap counterparty default by using the CR assessment as reference point for swap counterparties. Moody's concluded that the Class B1a and B1b Notes of both transactions are no longer constrained by the swap agreement entered between the issuers and Barclays Bank PLC.

In Paragon Mortgages (No. 12) PLC, the A1 Note Conditional Purchaser purchased the Class A1 Notes at their sterling equivalent value on 15 May 2019, which resulted in the termination of the Class A1 Note's swap with Barclays Bank PLC. Class A1 represented 46% as a percentage of pool balance as at the last reporting date 15 November 2019, thus reducing proportionally the swap exposure.

Increase in Available Credit Enhancement.

In Paragon Mortgages (No. 15) PLC, the credit enhancement for the tranches B1a and B1b affected by today's rating action increased to 17.2% from 9.4% since issuance.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in July 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The analysis undertaken by Moody's at the initial assignment of ratings for RMBS securities may focus on aspects that become less relevant or typically remain unchanged during the surveillance stage. Please see "Moody's Approach to Rating RMBS Using the MILAN Framework" for further information on Moody's analysis at the initial rating assignment and the on-going surveillance in RMBS.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include (1) performance of the underlying collateral that is better than Moody's expected, (2) an increase in available credit enhancement and (3) improvements in the credit quality of the transaction counterparties and (4) a decrease in sovereign risk.

Factors or circumstances that could lead to a downgrade of the ratings include (1) an increase in sovereign risk, (2) performance of the underlying collateral that is worse than Moody's expected, (3) deterioration in the notes' available credit enhancement and (4) deterioration in the credit quality of the transaction counterparties.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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