



## Fitch Upgrades Paragon Mortgages No. 14; Affirms Paragon Mortgages No. 15 and 24

Fitch Ratings - London - 28 January 2020:

Fitch Ratings has upgraded Paragon Mortgages No. 14's class C notes and affirmed Paragon Mortgages No. 15 and No. 24. A full list of rating actions is below.

### RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Paragon Mortgages (No.24) PLC		
B XS1315577798	LT AAAsf ● Affirmed	AAAsf ●
C XS1315579141	LT AAAsf ● Affirmed	AAAsf ●
Paragon Mortgages (No. 15) PLC		
Class A1 XS0310510960	LT AAAsf ● Affirmed	AAAsf ●
Class A2a XS0310515258	LT AAAsf ● Affirmed	AAAsf ●
Class A2b XS0310515506	LT AAAsf ● Affirmed	AAAsf ●
Class A2c 69913GAB1	LT AAAsf ● Affirmed	AAAsf ●
Class B1a XS0310519326	LT AAAsf ● Affirmed	AAAsf ●
Class B1b XS0310521496	LT AAAsf ● Affirmed	AAAsf ●
Class C1b Currency Swap Obligations	LT BBB+sf ● Affirmed	BBB+sf ●
Class C1b XS0310524599	LT BBB+sf ● Affirmed	BBB+sf ●
Paragon Mortgages (No. 14) PLC		

Class A1 69913FAA5	LT AAAsf ● Affirmed	AAAsf ●
Class A2a XS0291722931	LT AAAsf ● Affirmed	AAAsf ●
Class A2b XS0291723400	LT AAAsf ● Affirmed	AAAsf ●
Class A2c 69913FAB3	LT AAAsf ● Affirmed	AAAsf ●
Class B1a XS0291724044	LT AAAsf ● Affirmed	AAAsf ●
Class B1b XS0291724630	LT AAAsf ● Affirmed	AAAsf ●
Class C1a XS0291726254	LT A+sf ● Upgrade	Asf ●
Class C1b Currency Swap Obligations	LT A+sf ● Upgrade	Asf ●
Class C1b XS0291728466	LT A+sf ● Upgrade	Asf ●

In relation to Paragon Mortgages No. 14 and 15 class C1b-CSO, Fitch's Criteria for Rating Currency Swap Obligations of an SPV in Structured Finance Transactions and Covered Bonds expects that a rating action on a note tranche results in a corresponding rating action on the related rated swap obligations.

## Transaction Summary

Paragon Mortgages No.14 and 15 are buy-to-let (BTL) RMBS transactions backed by loans originated between 2006 and 2007 by Paragon Mortgages Limited and Mortgage Trust Limited, all subsidiaries of The Paragon Banking Group. Paragon Mortgages No.24 is backed by loans originated in 2015.

## 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 all three transactions are composed entirely of BTL loans therefore Fitch has applied its sector-level assumptions for BTL UK RMBS deals.

## Rising Credit Enhancement (CE)

The stable asset performance and the non-amortising reserve funds in have contributed to an increase in CE in the series. The increased CE for Paragon 14's class C notes from 3.6% to 3.8% and stable asset performance have contributed to their upgrade.

## Stable Asset Performance

Loans with arrears greater than three months have remained stable over the last 12 months, ranging from 0.0% (Paragon 24) to 0.45% (Paragon 14) of the current portfolio balance as of January 2020 and December 2019, respectively. 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.

## Rating Cap for Junior Notes

The CE available to the junior notes of Paragon 14 and 15 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. In Fitch's opinion, these notes are credit linked to Barclays' Long-Term Issuer Default Rating (IDR), hence the ratings of the junior notes in Paragon 14 and 15 are capped at Barclays' IDR. However, the junior notes in Paragon 14 and 15 did not pass stresses higher than 'A+' in Fitch cash flow model; hence their ratings are constrained by the model-implied ratings.

## BTL Interest-Only (IO) Concentration

The transactions have a material concentration of IO loans maturing within a three-year period during the lifetime of the transaction, peaking at 52.8% and 53% between 2030 and 2032 for Paragon 14 and 15 and at 52.65% between 2038 and 2040 for Paragon 24. 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 these pools Fitch has applied the FF based on the IO concentration WAFF.

## **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 a counterparty's breach of triggers could lead to a downgrade.

The rating of the class C notes of Paragon 14 and 15 are capped at Barclays' 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 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.

Relevant for Paragon 14 and 15:

Fitch did not undertake a review of the information provided about the underlying asset pools ahead of the transactions' initial closing. The subsequent performance of the transactions 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.

Relevant for Paragon 24:

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 data used for the rating included the following information and sources:

Loan-by-loan data provided by Paragon Finance plc as at 30 November 2019 (Paragon Mortgages No. 14 and 15) and 31 December 2019 (Paragon Mortgages No. 24)

Transaction reporting provided by Paragon Finance plc as at 17 December 2019 (Paragon Mortgages No. 14 and 15) and 15 January 2020 (Paragon Mortgages No. 24)

## **MODELS**

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

EMEA CashFlow 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 14, 15 and 24 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](http://www.fitchratings.com/esg)

Additional information is available on [www.fitchratings.com](http://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

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