



RATING ACTION COMMENTARY

Fitch Affirms Paragon Mortgages No. 12 and 14

Wed 26 May, 2021 - 12:40 PM ET

Fitch Ratings - London - 26 May 2021: Fitch Ratings has affirmed Paragon Mortgages No. 12 and 14 as detailed below.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Paragon Mortgages (No. 14) PLC				
● Class A1 69913FAA5	LT	AAAsf Rating Outlook Stable	Affirmed	AAAsf Rating Outlook Stable
● Class A2a XS0291722931	LT	AAAsf Rating Outlook Stable	Affirmed	AAAsf Rating Outlook Stable
● Class A2b XS0291723400	LT	AAAsf Rating Outlook Stable	Affirmed	AAAsf Rating Outlook Stable
● Class A2c	LT	AAAsf Rating Outlook Stable	Affirmed	AAAsf Rating

[VIEW ADDITIONAL RATING DETAILS](#)

In relation to Paragon Mortgages No. 12 and 14 C1b-CSO, Fitch's Global Structured Finance Rating Criteria expect a rating action on a note tranche to result in

Feedback



TRANSACTION SUMMARY

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

KEY RATING DRIVERS

Coronavirus-related Alternative Assumptions

Fitch applied alternative coronavirus assumptions to the mortgage portfolio (see EMEA RMBS: Criteria Assumptions Updated due to Impact of the Coronavirus Pandemic).

The combined application of revised 'Bsf' representative pool weighted average foreclosure frequency (WAFF) and revised rating multiples resulted in a 'Bsf' multiple to the current FF assumptions of 1.1x for Paragon 12 and Paragon 14 and no impact at 'AAAsf'. The alternative coronavirus assumptions are more modest for higher rating levels as the corresponding rating assumptions are already meant to withstand more severe shocks.

Stable Asset Performance

Loans with arrears greater than three months for both Paragon 12 and Paragon 14 asset pools have remained very low at 0.57% (30 April 2021) and 0.32% (28 February 2021), respectively. 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 arrears reduction. Paragon's extensive use of its receiver of rent strategy has limited the level of delinquencies seen across the Paragon series of transactions.

Rating Cap for Junior Notes

The only credit enhancement (CE) available to the junior notes of Paragon 12 and 14 is in the form of the first loss fund, which can either be invested in authorised investments or be held in the transaction account at Barclays Bank plc. As a result, these notes are capped at Barclays Bank plc's 'A+' Long-Term Issuer Default Rating (IDR). Fitch affirmed

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Interest-Only Concentration

The transactions have a material concentration of interest-only (IO) loans maturing within a three-year period during the lifetime of the transaction, peaking at 46.3% between 2029-2031 for Paragon 12 and 53.2% between 2030-2032 for Paragon 14. Where a concentration is present, Fitch will derive IO concentration's WAFF and apply the higher of IO concentration WAFF and the standard portfolio WAFF for each rating level in the analysis. For these pools, Fitch has applied the FF based on the IO concentration WAFF.

RATING SENSITIVITIES

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

The transactions' performance may be affected by changes in market conditions and economic environment. Weakening economic performance is strongly correlated to increasing levels of delinquencies and defaults that could reduce CE available to the notes. We tested a 15% increase in WAFF and a 15% decrease in WARR. The results indicate an adverse rating impact of up to three notches for Paragon 12 and up to two notches for Paragon 14.

Additionally, unanticipated declines in recoveries could also result in lower net proceeds, which may make certain notes' ratings susceptible to negative rating action depending on the extent of the decline in recoveries. Fitch conducts sensitivity analyses by stressing both a transaction's base-case FF and RR assumptions, and examining the rating implications on all classes of issued notes.

The class C notes of Paragon 12 and 14 are capped at Barclays' Long-Term IDR, which currently has a Negative Outlook, indicating an increased probability of negative rating action.

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

The ratings for Paragon 12 and 14 class A and B notes are currently at their highest level on Fitch's rating scale and cannot be upgraded. The ratings for Paragon 12 and 14 class C notes could be upgraded only on a combination of an upgrade to Barclays Bank plc's



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 checked 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.

Fitch did not undertake a review of the information provided about the underlying asset pools ahead of the transaction's 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.

Overall, and together with any 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.



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

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

The class C notes of Paragon 12 and 14 are credit-linked to and capped at Barclays' '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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[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 29 Jan 2020\)](#)

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

[UK RMBS Rating Criteria \(pub. 02 Jul 2020\) \(including rating assumption sensitivity\)](#)

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

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub. 13 Nov 2020\)](#)

[Global Structured Finance Rating Criteria \(pub. 24 Mar 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Multi-Asset Cash Flow Model, v2.9.0 (1)

ResiGlobal Model: UK, v1.2.2 (1)

ADDITIONAL DISCLOSURES

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ENDORSEMENT STATUS

Paragon Mortgages (No. 12) Plc

UK Issued, EU Endorsed

Paragon Mortgages (No. 14) PLC

UK Issued, EU Endorsed

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Structured Finance Structured Finance: RMBS Europe United Kingdom

Feedback

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