

Rating Action: Moody's upgrades six notes in Paragon Mortgages 25 and 26 transactions

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London, 03 September 2021 -- Moody's Investors Service ("Moody's") has today upgraded the ratings of six notes in Paragon Mortgages (No.25) PLC and Paragon Mortgages (No. 26) PLC transactions. The rating action reflects better than expected collateral performance and the increased levels of credit enhancement for the affected notes.

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

Issuer: Paragon Mortgages (No.25) PLC

...GBP600M Class A Notes, Affirmed Aaa (sf); previously on Apr 26, 2018 Definitive Rating Assigned Aaa (sf)

...GBP33.5M Class B Notes, Upgraded to Aaa (sf); previously on Apr 26, 2018 Definitive Rating Assigned Aa1 (sf)

...GBP30M Class C Notes, Upgraded to Aa1 (sf); previously on Apr 26, 2018 Definitive Rating Assigned A1 (sf)

...GBP24.7M Class D Notes, Upgraded to A3 (sf); previously on Apr 26, 2018 Definitive Rating Assigned Baa1 (sf)

Issuer: Paragon Mortgages (No. 26) PLC

...GBP383.489M Class A1 Notes, Affirmed Aaa (sf); previously on Jul 3, 2019 Definitive Rating Assigned Aaa (sf)

...GBP151.54M Class A2 Notes, Affirmed Aaa (sf); previously on Jul 3, 2019 Definitive Rating Assigned Aaa (sf)

...GBP24.741M Class B Notes, Upgraded to Aaa (sf); previously on Jul 3, 2019 Definitive Rating Assigned Aa1 (sf)

...GBP18.555M Class C Notes, Upgraded to Aa1 (sf); previously on Jul 3, 2019 Definitive Rating Assigned Aa3 (sf)

...GBP20.102M Class D Notes, Upgraded to A3 (sf); previously on Jul 3, 2019 Definitive Rating Assigned Baa3 (sf)

RATINGS RATIONALE

The rating action is prompted by better than expected collateral performance and the increased levels of credit enhancement for the affected notes.

Revision of Key Collateral Assumptions:

As part of the rating action, Moody's reassessed its lifetime loss expectation for the portfolio reflecting the collateral performance to date.

The performance of both transactions has been better than initially expected at closing. 90 days plus arrears as a percentage of current balance are currently standing at 0.13% for Paragon Mortgages (No.25) PLC and 0.35% for Paragon Mortgages (No. 26) PLC, with pool factor at 66.1% and 68.5% respectively. Both transactions have 0% losses since closing.

Moody's assumed the expected loss as a percentage of current pool balance of 0.7% for Paragon Mortgages (No.25) PLC and 0.9% for Paragon Mortgages (No. 26) PLC, due to the better than expected collateral

performance. This corresponds to expected loss assumption as a percentage of the original pool balance of 0.46% for Paragon Mortgages (No.25) PLC and 0.62% for Paragon Mortgages (No. 26) PLC.

Moody's has also assessed loan-by-loan information as a part of its detailed transaction review to determine the credit support consistent with target rating levels and the volatility of future losses. In Paragon Mortgages (No.25) PLC, Moody's noticed that no substitution of new mortgages has occurred since May 2020 and that total substitution so far accounted for 16.5% of the original pool balance. As a result, Moody's has decreased the MILAN CE of Paragon Mortgages (No.25) PLC to 13% from 14.5% and maintained the MILAN CE assumption at 11.5% for Paragon Mortgages (No. 26) PLC.

Increase in Available Credit Enhancement

Sequential amortization led to the increase in the credit enhancement available in this transaction.

In Paragon Mortgages (No.25) PLC, the credit enhancement for Classes B, C and D increased to 14.6%, 9.2% and 4.7% from 11.7%, 7.5% and 4.0% respectively since closing.

In Paragon Mortgages (No. 26) PLC, the credit enhancement for Classes B, C and D increased to 15.4%, 9.6% and 4.9% from 11.0%, 6.6% and 3.3% respectively since closing.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in December 2020 and available at https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBS_1248130 . Alternatively, please see the Rating Methodologies page on www.moody's.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: (i) performance of the underlying collateral that is better than Moody's expected; (ii) an increase in available credit enhancement; (iii) improvements in the credit quality of the transaction counterparties; and (iv) a decrease in sovereign risk.

Factors or circumstances that could lead to a downgrade of the ratings include: (i) an increase in sovereign risk; (ii) performance of the underlying collateral that is worse than Moody's expected; (iii) deterioration in the notes' available credit enhancement; and (iv) 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 in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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