RMBS/UK
Presale Report

First Flexible (No. 7) PLC

Expected Ratings*

Class	Amount (GBPm)	Final Maturity	Rating	C/E (%)
A	[257.00]	2033	AAA	3.30
B	[4.00]	2033	AA	1.80
C	[4.00]	2033	A	0.30

Analysts
Ketan Thaker
+44 20 7862 4124
ketan.thaker@fitchratings.com

Gregg Kohansky
+44 20 7862 4091
gregg.kohansky@fitchratings.com

Origination and Servicing
Robbie Sargent
+44 20 7862 4165
robbie.sargent@fitchratings.com

Surveillance
Charlotte Eady
+44 20 7417 3523
sf_surveillance@fitchratings.com

* Expected ratings do not reflect the final ratings and are based on pool information provided as of 29 September 2006.

Fitch's collateral analysis is based on the maximum drawable balance for the flexible mortgages and consequently pool statistics differ from those in the Offering Circular.

Summary

This GBP [265] million transaction is a securitisation of residential mortgages originated in the UK. Fitch Ratings has assigned expected ratings to the notes to be issued by First Flexible (No. 7) PLC ("the issuer" or "FF7") as indicated at left.

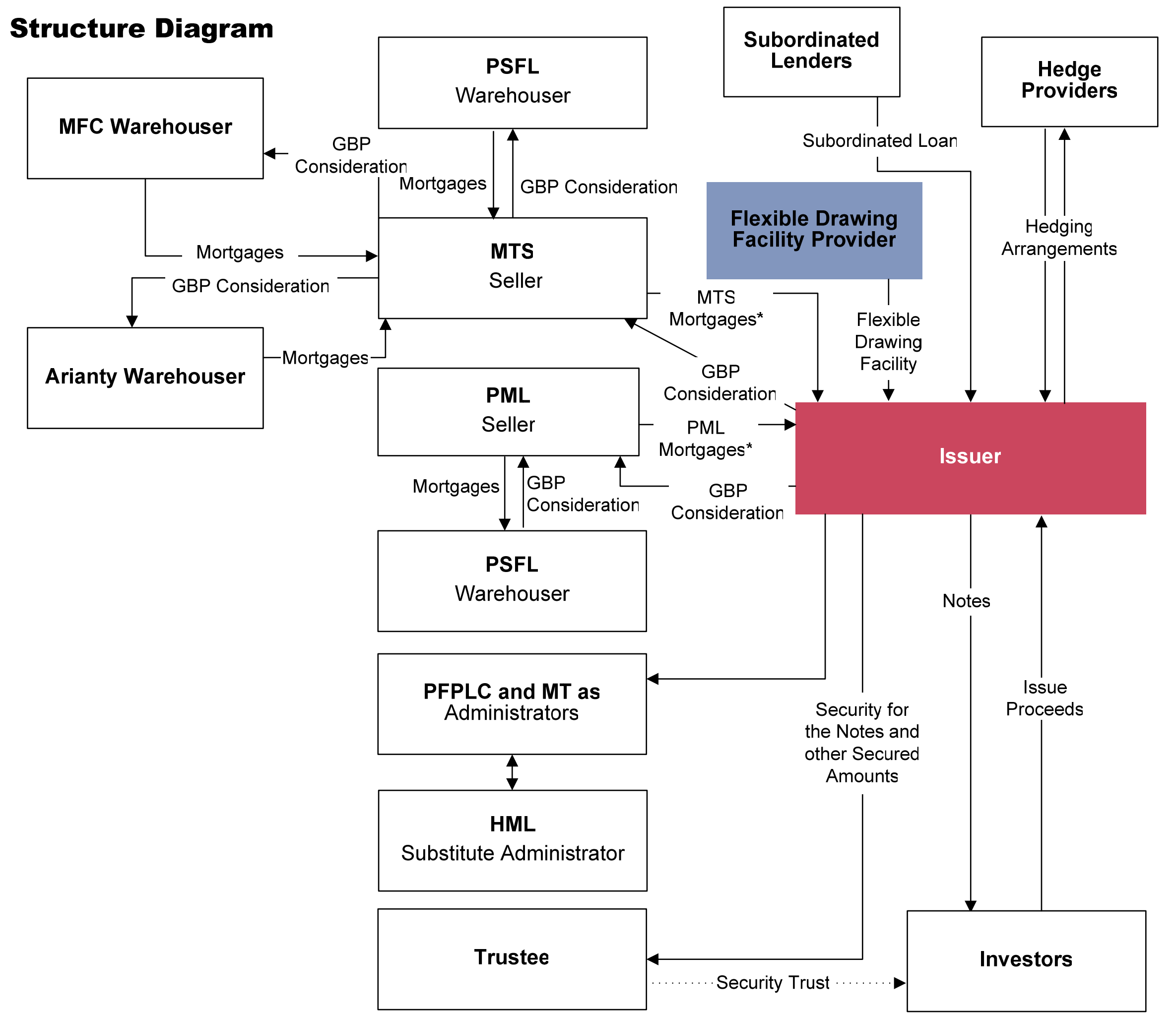
The ratings are based on the quality of the collateral, available credit enhancement, the underwriting processes of Mortgage Trust Limited ("MTL") and Paragon Mortgages Limited ("PML"), as well as the servicing capabilities of Paragon Finance PLC ("PFPLC") and Mortgage Trust Services PLC ("MTS") in relation to both the PML and MTL mortgages. PFPLC and MTS are both wholly owned subsidiaries of The Paragon Group of Companies PLC ("the group"). The ratings are also based on the capabilities of Homeloan Management Ltd ("HML") as standby administrator and the sound legal structure of the transaction. Credit enhancement for the class A notes will be provided by the subordination of the class B notes [1.50%], the class C notes [1.50%] and a reserve fund of 0.30%, which will be fully funded at closing.

Some [96.51%] of the loans by value in the provisional mortgage pool have been originated or acquired by MTL or MTS and [3.49%] by PML. In the context of residential mortgage lending, PML specialises in the origination of buy-to-let loans to "professional" landlords, defined as borrowers with at least 12 months' experience managing at least three rental properties. MTL now specialises in lending to "private investor" landlords, with between one and five properties in their portfolio. The group has extensive experience of originating and servicing residential mortgages. Some [98.24%] of the current pool comprises owner-occupied mortgages and a large portion of the pool ([57.39%]) comprises flexible mortgages.

The group offers an array of financial products, ranging from personal, retail point-of-sale and auto loans to prime residential mortgages. This is the group's seventh transaction in the First Flexible series.

To determine appropriate credit enhancement levels, Fitch analysed the collateral using its UK Residential Mortgage Default model as a benchmark (see research "*UK Residential Mortgage Default Model III*" dated 26 July 2005, available on *www.fitchratings.com)*. Fitch also modelled the cash flow contribution from excess spread using its European RMBS cash flow model (see research "*A Guide to Cash Flow Analysis for RMBS in Europe*" dated 20 December 2002 available on www.fitchratings.com) using the default and recovery assumptions indicated by the default model. The cash flow test showed that each class of rated notes could withstand loan losses at a level corresponding to the related stress scenario without incurring any ultimate principal loss or interest shortfalls on interest payment dates.

Structure Diagram



* Mortgages tranferred from MTS to the Issuer consist of MTS Mortgages and MTL Mortgages. Mortgages transferred from PML to the Issuer consist of PML Mortgages
Source: Transaction doucments

Special Reports

The following special reports provide additional details on Fitch's rating approach to, and performance of, the RMBS market and all are available on www.fitchratings.com:

- "*European Mortgage RMBS, Housing & Credit Newsletter*" (dated 8 June 2006);
- "*Origination and Servicing Standards in the UK Residential Mortgage Market*" (dated 12 July 2005);
- "*Rising Stars? Fitch Issuer Report Grades H1 2005 Update*" (dated 7 June 2005);
- "*Automated Valuation Models in the UK*", dated 15 December 2005;
- "*The Weakening Outlook and Growing Political Risks Facing UK Housebuilders*" (dated 22 November 2004);
- "*UK Residential Mortgage Default Model III*" (dated 26 July 2005);
- "*A Guide to Cash Flow Analysis for RMBS in Europe*" (dated 20 December 2002);
- "*UK Non-Conforming RMBS: Performance Reviewed Q306*" (dated 4 December 2006);
- "*Fitch Issuer Report Grades May 2006 Update*", dated 5 June 2006;
- "*Pound Stretchers? Self-Certification Mortgage Products in the UK*" (dated 19 December 2003);
- "*Calculation Errors in European Structured Finance*", dated 18 April 2006; and
- "*Revised MVD Assumptions for UK RMBS Transactions*", dated 9 August 2006.

■ Credit Committee Highlights

Cash Flow Analysis

- **Overview:** Similar to other UK RMBS transactions, this one will have a separate revenue and principal waterfall. There is no liquidity facility available and hence to provide liquidity to the class A notes, principal could be used to pay interest in the event of a revenue shortfall. There is a threshold interest margin ("TIM") mechanism, under which the administrator needs to ensure that the weighted-average ("WA") rate of interest applicable to the mortgages, after taking into account any hedging arrangements, prepayment penalties and income received from investment funds in the transaction account is not less than the threshold margin. To do so, the administrator can either increase the standard variable rate ("SVR") applicable on the loans or make a drawing on a subordinated loan provided by MTS and PFPLC.

- **Minimum WA Margin via TIM:** The administrators have adopted a TIM mechanism in this transaction designed to ensure that the WA contractual margin over three-month Libor (including income or expenses from any hedging (if put in place pre- or post-closing), investments and redemptions) on the reference portfolio is at least 1.8% and will step up to 2.2% in March 2012. Should the WA margin fall below these levels, the mortgage administrator will, under the mechanism, be obliged to increase the rates on variable-rate loans in the pool or make a drawing on the subordinated loan (see *Reserve Fund* below) such that the required levels are met. *Comparison:* Paragon Mortgages No. 13 ("PM13") also had a similar minimum WA margin mechanism. *Accounted For:* Fitch has stressed the threshold interest margin rate that is achieved in its 'AAA' and 'AA' analysis, which has reduced the excess spread available to the transaction in such scenarios.

- **Reserve Fund:** The reserve fund (or "first loss fund") will not amortise. The initial and target reserve fund will be 0.30% of the outstanding note balance. Fitch has incorporated the reserve fund into its cash flow analysis. *Comparison:* PM13 had a reserve fund of 1.90% that stepped up to 2.40% if 60+ day delinquencies exceeded 3% of the outstanding balance. *Accounted For:* Fitch has incorporated the impact of the first loss fund in its cash flow analysis.

- **Redraw Facility:** Some [57.39%] of the portfolio by value comprises flexible loans (for a detailed commentary on flexible loans please refer to *Flexible Mortgages* section in *Asset Analysis*), all of which were originated by MTL. The product affords borrowers the ability to prepay a portion of their principal balance at any point (monthly, annually, etc) and use the prepaid amount as a line of credit that they can redraw at any point in the future. There will be a redraw facility sized at 5% of the aggregate maximum drawable balance of the flexible mortgages. This will be provided by Barclays Bank Plc, and it will fund the redraw amounts in the event of not enough principal funds being available. *Comparison:* PM13 had a lower proportion of flexible loans at 16.12%. It had a similar redraw facility to fund the redraw amounts.

- **Interest Rate Reset Risk:** Although [99.93%] of the pool is variable rate or linked to SVRs, different loans could have different SVRs. There could be a mismatch as to when the note Libor resets and when the variable rate on the mortgages reset. *Treatment:* Fitch has stressed the potential mismatch between tracker/SVR loans with different reset dates than the three-month Libor paid on the notes, which has reduced the excess spread available to the transaction in such scenarios.

- **Prefunding:** No prefunding will be allowed in this transaction. All the proceeds from the issue of the notes will be applied towards the purchase of mortgages on the closing date.

Asset Analysis

- Some [96.51%] of the pool comprises loans originated or acquired by MTL and the remaining [3.49%] was originated by PML. A substantial majority of the pool consists of prime residential owner-occupied mortgages originated by MTL, between 1982 and 2005. The key characteristics of the pool are a high level of seasoning at [122.65] months, low current indexed loan-to-value ratio ("LTV") of 34.9% and no adverse credit history, which are positives for the transaction. Also, a majority of the loans are flexible mortgages that allow borrowers to make redraws or take payment holidays. This is mitigated to a great extent by the presence of a flexible drawing facility ("redraw facility").

- **Flexible Mortgages:** Some [57.39%] of the pool by value consists of flexible mortgages. The flexible mortgage product affords borrowers the ability to prepay a portion of their principal balance at any time (monthly, annually, etc.) and to use the amount prepaid as a line of credit that they can redraw at any point in the future. In addition, borrowers may take "payment holidays" to the extent that amounts prepaid are used in lieu of scheduled payments. The general limitations, however, include that if the borrower prepays more than 20% (the “threshold amount”) of the scheduled principal balance, a fee of 1% per annum (“commitment fee”) will be charged on amounts in excess of the threshold. The borrower may reschedule his loan to avoid such penalties, but the redraw would then not be available. The administrator holds the right to change both the commitment fee and the threshold level at any time. Pursuant to transaction documentation, however, it must maintain 20% as the maximum threshold and 1% as the minimum commitment fee. *Treatment:* Because of the possible redrawing by borrowers, Fitch, when undertaking loan level default analysis, takes into account the current balance of loans plus redrawable amounts, rather than only the current balance.

- **Commercial/Mixed Residential and Commercial Product:** Some [2.68%] of the portfolio consists of commercial or mixed residential and commercial products. Fitch considers loans on commercial or mixed residential and commercial properties to be inherently more susceptible to default than those secured on an owner-occupied property, simply because the borrower is more likely to default on a loan secured on an investment property than on one secured on their own home. *Mitigated by:* The base default probability for commercial loans has been increased in Fitch’s default analysis.

- **Highly Seasoned Pool:** An important strength of this pool is the high level of seasoning. The WA seasoning on the portfolio is [122.65] months. Fitch’s observed default pattern of UK residential mortgages suggests that defaults are more likely to occur during the initial years after origination of the loan. Fitch believes that the propensity to default tends to decline as the ability of private borrowers to withstand financial stress increases. This has been due to several factors, including rising house prices and rising personal incomes. Moreover, the borrower often deleverages by amortising the mortgage loan over time. Amortisation and house price inflation increase the borrower’s equity in the property and reduce the LTV. The higher the equity held in the property the greater the incentive for the borrower to avoid default.

- **No Adverse Credit:** MTL and PML conduct a credit search for all applicants. They do accept borrowers with an adverse credit history, as characterised by the presence of county court judgements ("CCJs"), bankruptcy orders ("BOs"), individual voluntary arrangements ("IVAs"), prior mortgage/rental arrears or defaults on unsecured debt. PML has confirmed that none of the borrowers in the current pool have an adverse credit history.

- **Limited Underwriting Information:** Fitch usually assesses the pool based on the underwriting criteria applicable at the time of loan origination. However, this pool includes loans originated from the period 1982 to 2005, because of which it was not possible to assess in detail the underwriting criteria applicable at the time of each loan origination. As an exception, Fitch has relied on the common lending guidelines provided. The agency believes that additional risk due to lack of detailed underwriting guidelines is minimal give the very high seasoning of the pool, no adverse credit history and low LTV of the loans. There are a few loans in the pool where information such as original advance amount or interest coverage ratio were not available, since these were very old loans. *Treatment:* Where some information was not available, Fitch has made conservative assumption.

- **Illiquid Properties:** Some [12.28%] of the FF7 pool falls into Fitch’s jumbo and small categories, which represent property values at the less liquid ends of the property market. *Mitigated by:* Fitch applies a multiple to the market value decline (“MVD”) assumption for these properties in its loan-by-loan analysis, since the agency believes there is less liquidity at the low- and higher-value ends of the market. Moreover, a proportion of these properties are large dwellings broken down into individual apartments, mitigating this risk.

- **Granular Pool:** The current pool of GBP [329.70]m, including flexible drawings, is made up of over 6,200 mortgages. The average current balance is GBP52,562, which is lower than most other UK non-conforming RMBS transactions.

- **Historical Performance:** All PML and MTL transactions have performed relatively well. The previous First Flexible transactions have had no realised losses to date, and arrears have been low. Since the end of the substitution period in November 2003, First Flexible 4 has had an average annualised principal payment rate of 24.7%.

Credit Structure

The financial structure of the transaction is designed to provide differing degrees of credit enhancement to the note tranches. The class A notes will be protected

(i) by any excess spread, (ii) by the reserve fund (0.30%) and (iii) by the subordination of the class B and C junior tranches (3.00%). The class B tranche will be supported by (i) any excess spread, (ii) by the reserve fund and (iii) by the class C tranche (1.50%). The class C tranche will be supported by available excess spread and the reserve fund.

The reserve fund will also be available to cover interest shortfalls and losses, subject to certain restrictions on paying interest on the junior notes (see *Reserve Fund* below). The reserve fund will equal 0.30% of the total note balance at closing and will be fully funded upfront.

Available residual excess spread is used to replenish the reserve fund (if drawn) to its required amount on every payment date before the remainder is used for subordinated payments or is returned to the originator.

Revenue Priority of Payments

Payments received by FF7 are split into revenue and principal and are, subject to certain exceptions (see *Principal Used for Senior Interest Liquidity* below), paid via separate waterfalls. All revenue received on the issue (e.g. borrower interest payments, swap payments and interest earned on cash in the transaction account prior to the interest payment date and early redemption certificates ("ERCs")) will be applied on each payment date in the following priority of payments:

1. trustee and substitute servicing fees;
2. senior servicer fees;
3. *pro rata*, amounts due and payable: (i) as interest to class A noteholders; and (ii) redraw facility fees and interest (excluding subordinated amounts);
4. should a debit balance recorded on the principal deficiency ledger ("PDL") exceed the balance of the then-outstanding class B and C notes, an amount applied to extinguish that excess;
5. interest to the class B noteholders;
6. should the debit balance recorded on the PDL exceed the balance of the then-outstanding class C notes, an amount applied to extinguish that excess;
7. interest to the class C noteholders;
8. VAT to be paid, if any;
9. amounts applied to extinguish a debit balance on the PDL;
10. amounts required to replenish the reserve fund; and
11. other subordinated amounts.

Items (4) and (6) above ensure that, should the debit balance recorded on the PDL exceed the balance of the then-outstanding subordinate notes, any PDL debit balance corresponding to the class A or B notes, respectively, will be reduced to zero prior to the payment of interest on any notes subordinate to each respective class.

Principal Used for Senior Interest Liquidity

Principal receipts may be used to pay interest on the class A notes in the event that it cannot be paid from excess spread and amounts available in the reserve fund. The PDL will be debited by the amount used to pay senior interest. This debit balance will then be repaid at the relevant position in the revenue priority of payments using available revenue.

Mandatory Principal Redemption

All amounts recorded as principal (including scheduled repayments, prepayments, amounts credited to the PDL and defaulted loan sale proceeds) other than in respect of senior interest shortfalls not covered by revenue funds, or further advances extended during the previous period, will initially be passed through to noteholders sequentially. However, once the following conditions have been met, then amortisation will be *pro rata* to maintain the ratio of B and C notes to senior notes at that time:

- the balance of junior notes as a proportion of the total outstanding balance of notes exceeds double that at closing;
- there is no debit balance on the PDL;
- the balance of loans over three months in arrears is less than 15.0% of the then-current balance;
- the total outstanding balance of the class B and class C notes is greater than [1.19%] of the total balance of notes issued at closing.

Optional Redemption

At the option of the issuer, it is possible to redeem all of the notes plus accrued interest in the following circumstances:

- on or after the interest payment date in March 2011;
- once the then-current outstanding principal amount is less than 20% that at closing; or
- if the issuer or any hedge provider is required to make any withholding tax deductions.

Fitch's ratings do not address the possible exercising of these call options held by the issuer.

Final Redemption

To the extent not previously paid down, the notes are due to be redeemed in full in September 2033.

Interest Rate and Basis Risk

Except for five loans in the provisional pool, all other loans in the pool are on a variable rate. There is the possibility of variable-rate loans being subsequently converted into fixed-rate loans after closing.

To hedge its exposure to any converted loans in a rising Libor environment, the issuer will enter into master interest rate exchange agreements with JPMorgan Chase Bank (rated 'A+/F1+'). Any increase in this exposure will be accompanied by a suitable extension of the hedging arrangements, funded from excess spread trapped in a subordinated position in the revenue priority of payments on the previous payment date.

Some [99.93%] of the portfolio is charged against PML's or MTL's SVR, which itself can be based on three-month Libor or the Bank of England Base Rate. The potential mismatch between three-month Libor to be paid on the notes and the SVR-based rates to be paid on the underlying loans will not be specifically hedged within the transaction. Also, the potential mismatch between the three-month Libor basis for the notes and the underlying PML and MTL loans based on when their reset dates occur each quarter is similarly not specifically hedged. Rather, PML has a threshold interest margin mechanism in this transaction designed to ensure that the WA contractual margin over three-month Libor on the reference portfolio as a whole will be at least 1.8%, rising to 2.2% after March 2012. Should the WA margin fall below these levels, the mortgage administrator will, under the mechanism, be obliged to increase the SVR on the pool or ensure that there are sufficient funds in the shortfall fund to maintain the minimum level. Fitch has stressed the threshold interest margin rate that is achieved in its 'AAA' and 'AA' analysis.

The agency has also stressed the potential mismatch between tracker, SVR and Libor-linked loans with different reset dates than the three-month Libor paid on the notes, which has reduced the excess spread available to the transaction in such scenarios.

Currency Risk

Since all the notes are expected to be issued in British pounds sterling, there is no foreign exchange risk in the transaction.

Swap Counterparty Rating Requirements

Some [99.93%] of the loans in the current pool have a variable rate of interest. However, the proportion of fixed-rate loans could increase if loans are converted to fixed rate upon request by borrowers. Any such conversion would be hedged by a matching basis swap to hedge against increases in Libor.

The basis swap counterparty must be rated 'A/F1' and the currency counterparty 'A+/F1'. In the event of a downgrade of a counterparty below either of these levels, under the terms of the transaction, that counterparty will be required to collateralise any exposure, obtain a guarantee from a suitably-rated counterparty or find a suitably-rated replacement provider.

If any of the counterparties are then downgraded below 'F2' or 'BBB+', that counterparty will be replaced by or obtain a guarantee from a suitably-rated counterparty. At this level, it will only be possible to post collateral to support the swap if the mark-to-market calculations and the correct and timely posting of collateral are verified by an independent third party.

If any of the counterparties are then further downgraded, the swap counterparty will be replaced by or guaranteed by a suitably-rated counterparty.

Please see Fitch's "*Counterparty Risk in Structured Finance Transactions: Swap Criteria*" report, dated 13 September 2004 and available at www.fitchratings.com, for additional information on Fitch's criteria for such swaps.

Pre-Funding

There is no pre-funding expected in this transaction.

Non-Verified Loans

At closing, all of the loans will have made their first payment.

Credit Enhancement and Liquidity

Reserve Fund

The GBP [0.8]m reserve fund ([0.30%] of the issue) will be fully funded on day one via a subordinated loan advanced by PFPLC and MTS.

Any drawings on the reserve fund (to cover losses or revenue shortfalls) will be replenished using available excess spread or by drawing on the subordinated loan. The fund has been sized by Fitch to ensure that the notes have sufficient credit protection and liquidity support to merit their respective ratings.

The agency has not given credit for the subordinated loan drawings as the provider is not rated by the agency.

Redraw Facility

Some [57.39%] of the portfolio comprises flexible loans, all of which were originated by MTL. This product affords borrowers the ability to prepay a portion of their principal balance at any point (monthly, annually, etc) and use the prepaid amount as a line of credit that they can redraw at any point in the future. Some borrowers with interest-only loans may draw on a line of credit limit greater than their original drawdown. In addition, borrowers may take “payment holidays” by applying prepaid amounts in lieu of scheduled repayments. The general limitations, however, include that if the borrower prepays more than 20% (the “threshold amount”) of the scheduled principal balance, a “commitment fee” of 1% per annum will be charged on amounts in excess of the threshold. The borrower may reschedule their loan to avoid such penalties, but the redraw would then not be available. In most cases, and for all newly originated loans, MTL retains the right to change the commitment fee at any time. There will be a redraw facility sized at 5% of the maximum drawable balance of flexible mortgages provided by [Barclays Bank Plc] to fund the redraw amounts in the event of not enough principal funds being available.

Excess Spread

Excess spread is also a source of credit support and liquidity for all tranches of notes, with the advantage of being a potentially ongoing resource. However, unlike “hard” cash collateral, excess spread is dependent on the performance of the pool, and as such is often least available when most needed. It is eroded by delinquencies and defaulted loans, which is compounded if higher margin loans are affected. Should high-margin loans amortise more quickly than those with lower margins (whether as a consequence of divergent prepayment rates or shorter tenures), then there is further compression of excess spread. Furthermore, high prepayment rates on the portfolio as a whole would squeeze the gross amount of credit enhancement available over the course of the transaction. To take account of these factors in its cash flow modelling, Fitch applied its performance assumptions (derived from the collateral model) in conjunction with stressed prepayment rates and a compressed WA coupon according to the rating scenario (Fitch’s approach to modelling cash flows in RMBS transactions is further discussed in *Appendix 1* and in the criteria report “*A Guide to Cash flow Analysis for RMBS in Europe*”, dated 20 December 2002 and available at www.fitchratings.com).

■ Collateral Analysis

The figures provided in Fitch’s collateral analysis are based on the maximum drawable balance for the flexible mortgages and consequently differ from those in the offering circular.

The entire provisional pool analysed consisted of prime residential owner-occupied or buy-to-let mortgage loans with a total current outstanding balance of approximately GBP297,969,550 (as at 29 September 2006) and a total maximum drawable balance of GBP329,702,595. The distinguishing characteristics of the portfolio are detailed below, together with commentary on any special considerations. All percentages are based on the total maximum drawable balance of mortgages unless otherwise stated.

Commercial or Mixed Residential/ Commercial Loans

Some [2.68%] of the loans in the portfolio are commercial or mixed residential/commercial. Fitch applies an additional default hit to these to reflect the fact that:

- the property is not the borrower’s prime residence and so the borrower may be more likely to default on the loan during a time of financial stress; and
- the servicing of the loan is primarily dependent on rental income, which may be more volatile in stress periods than personal income.

In addition, landlord borrowers may target particular regions or groups of tenants within their portfolios, which may lead to a concentration of similar properties in a similar location at the individual borrower level.

Arrears Loans

In the provisional pool, 8.59% of loans by value are currently more than 30 days in arrears, including 3.84% that are more than 90 days in arrears. Fitch assumes that loans in arrears are more likely to default, and applies more conservative default adjustments to these. For loans that are more than 90 days in arrears, a 100% default probability is assumed.

Interest Rate Type

Some [99.93%] of the loans are currently on the SVR. This reduces the possibility of any payment shock that the borrowers might experience when they come out of their teaser periods. There are only five loans in the provisional pool with a fixed initial rate. However, the proportion of fixed-rate loans may change not only as a result of rate offers expiring, but also following the approval of borrowers’ requests to the administrator to convert their mortgages; see *Interest Rate and Basis Risk* above.

Conversion

Subject to certain conditions, the administrator may approve borrower requests to convert certain aspects of their mortgages; for instance, from a variable-rate loan to fixed or capped. In the case of capped-rate mortgages, to approve this change, the issuer would have to ensure that it has the necessary cash to be in a position to extend the then-current hedging facilities. This would be achieved either by trapping excess spread in advance or by drawing from the subordinated loan from PFPLC and MTS, whose subsequent claim would be in a subordinated position in the revenue waterfall.

Further Advances

Mandatory further advances are made to borrowers who have flexible mortgages and who have overpaid.

However, principal receipts will not be allowed to be used for discretionary further advances. Any discretionary further advances will be funded only by drawings on a subordinated loan. Any such drawing made on the subordinated loan will be repaid in line with the revenue priority of payments.

■ Legal Structure

FF7 is ultimately 100% owned by The Paragon Group of Companies PLC ("PGPLC"). Since the issuer in this case is a non-orphan entity, under UK tax laws it is possible that under certain circumstances the issuer can become liable for tax liabilities of other entities in the Paragon group. However, based on the legal opinion and undertakings, from the ultimate holding company, PGPLC, Fitch believes the risk of such a liability arising is limited.

FF7 as issuer is also currently part of the Paragon VAT Group. Each member of a VAT group is jointly and severally liable for the VAT liability of all members of the group. To mitigate the risk of the issuer becoming liable for the VAT of group members, the following mitigants are in place:

- The trustee can serve notice requiring that the issuer cease to be a member of the VAT Group.
- A trust account can be used by any member of the VAT group to meet a VAT liability should the principal VAT payer fail to do so. The amount required to be deposited in the account would be the greater of (i) GBP120,000, (ii) 120% of the actual VAT liability of Paragon group in the past two quarters, and (iii) 120% of the estimated VAT liability of Paragon group in the next two quarters.

Fitch is of the opinion that this amount should be sufficient to cover any potential VAT liability.

The FF7 legal structure is designed to ensure that a seller insolvency would not interrupt timely payments of principal and interest to investors.

On the closing date, the loan sellers will assign the rights, title and interest in and to the mortgages to FF7 (a public company incorporated under the laws of England and Wales). There will be no recourse to the sellers so that the transfer to FF7 will be treated as a true sale.

At closing, FF7 will enter into a deed of charge, creating security over the collateral in favour of the trustee as security for all payments under the notes. The security will include first-lien mortgages and first-fixed charges in favour of the trustee on all the issuer's rights, claims, title, benefit and interest in and to the underlying collateral.

Lending Guidelines

The following lending criteria were applied to all loans in the pool on their respective origination date:

- The property is located in England, Wales, Scotland or Northern Ireland. It is residential, commercial or mixed residential/commercial and is of standard construction.
- Loan Purpose: In the case of residential mortgages, for owner occupation. In the case of commercial or mixed residential/commercial, for investment purposes or mixed owner occupation/investment.
- Original Term: Minimum five years; maximum 40 years.
- Security: A first legal charge or standard security.
- Tenure: Freehold, heritable or long leasehold. Leases to have a minimum of 30 years unexpired at the end of the mortgage term.
- Applicant's Age: Minimum age is 18 years.
- Buildings Insurance: Insurance is required on standard terms with an acceptable insurer for a sum.
- Valuation: All valuations are required to be carried out by qualified valuers.
- For residential properties, the maximum permitted LTV is 100% excluding fees. In the case of commercial and mixed residential/commercial, the LTV will not exceed 85% excluding fees.
- Income: In the case of applicants for residential mortgages:

— Single applicant – up to 4.25 times the applicant's income.

— Multiple applicants – up to 4.25 times primary income plus one times secondary income or up to 3.25 times joint income.

— In the case of applicants for commercial or mixed residential/commercial property, assessment of income may also include rental income from the property.

- Credit History: A credit search is carried out in respect of each applicant, which must provide sufficient information to evidence a satisfactory credit profile. Where the application is received in the name of a corporate, company searches and directors' searches will be undertaken, which must show no evidence of adverse information that is material to the assessment of the case.

- Repayment Type: Capital repayment and/or interest.

Representations and Warranties

The mortgage sale agreement contains representations and warranties given by the originator in relation to the pool of mortgages. No search of title will be conducted by the issuer or the trustee; rather they will rely on such representations and warranties. If there is an irremediable breach of any of the representations or warranties, the seller will be required to repurchase the loan(s) in question.

Specifically, the representations and warranties include the following:

- Each mortgage constitutes a first-ranking legal mortgage or a second-charge mortgage when either PML or MTL are holders of the first charge, which is a valid and binding obligation of the borrower, enforceable under its terms.

- No lien or right of set-off exists between the borrower and the originator.

- The loans have been underwritten according to the originator's lending guidelines outlined in the offering circular. This includes proper investigation and search of the relevant properties.

- Prior to granting the loan, a property valuation was conducted by PML's or MTL's in-house valuers or an independent valuer from the panel of valuers appointed by the originators.

- Each loan governed by the Consumer Credit Act 1974 meets the requirements of the Act in full.

- At its date of completion, each property was insured under a buildings policy or a block buildings policy.

- All loans were originated or acquired by PML or MTL.

- All loans have received their first payment instalment.

Origination and Servicing

Paragon Mortgages Limited Origination

PML is a subsidiary of the Paragon Group, which specialises in the provision of various financial products to consumers. As a mortgage company, PML specialises in the origination of buy-to-let products, and since February 2001, the vast majority of originations have been to so-called professional borrowers. PML ceased originating prime residential mortgage products in 2000 and residential further advance products in November 2004.

Mortgage Trust Limited Origination

MTL, part of the Paragon Group since June 2003, launched its new brand in September 2003. MTL specialises in the origination of buy-to-let products, and the majority of originations are to private investor borrowers. MTL ceased originating prime residential mortgage products in June 2003 and residential further advance products in November 2004.

Both PML and MTL originate buy-to-let loans, which will not be qualified as regulated loans under the Financial Services Authority ("FSA"). Nevertheless, MTS may originate a very small number of owner-occupied loans that must qualify for FSA regulation. MTS has been granted authorisation by the FSA for regulated mortgage lending.

Underwriting

PML and MTL each have their own dedicated underwriting teams of approximately 25 full-time equivalent employees. The underwriters are usually recruited from within the business, and all receive one-on-one on-the-job training. If the underwriters are new to the business, it is expected they will need six months of training prior to receiving a lending mandate. Monthly sample checks are completed against all underwriters by line management and further random checks are completed immediately after completion of a loan. Other control mechanisms are in place on the systems to ensure mandates and lending thresholds are not overridden. HUNTER has been used as a fraud detection tool since 1995, and both PML and MTL have successfully switched to SIRA (Syndicated Intelligence for Risk Avoidance) during 2006.

Valuations

The Paragon Group of Companies has 17 directly employed "staff" surveyors who complete approximately 70% of valuations; the remaining 30% are completed by "panel" surveyors. It is expected that more unusual properties are surveyed by the staff surveyors. All surveys completed by panel surveyors are audited by a PML staff surveyor.

Servicing

PFPLC is responsible for administering the mortgage loans in the PML-originated portion of the portfolio. It invested in sophisticated collections technology following the adverse credit experience suffered by the group in the early 1990s. In a self-contained site at the group's West Midlands base, ongoing contact with borrowers is maintained via a telephone-based debt management system known as CACS. CACS enables collection agents to schedule calls to borrowers upon a missed payment and provides a detailed diary-based collections management platform. Fitch notes that this site has substantial operational history, and considers PFPLC to be more than adequate in its role as servicer.

MTS (as servicer for the MTL-originated loans) has an experienced mortgage servicing operation. The systems developed are user-friendly and tailored specifically to the needs of securitisation. MTL's origination remains in Epsom while collection is in Solihull. Collections and arrears management are now performed by PFPLC and MTS, using PFPLC/MTS employees, who operate the same systems and processes as for the PML-originated mortgages.

Standby Servicing

Fitch considers the continuous, efficient servicing of the mortgage portfolio as fundamental to the successful performance of a mortgage-backed transaction. As such, it monitors that adequate arrangements are in place to ensure continued servicing in the instance that the named servicer in a transaction is unable to perform its duties.

HML will act as a standby servicer for this transaction. In the event that PFPLC and MTS are no longer able to continue servicing the portfolio, HML will be contractually required to assume servicing responsibilities.

■ Cash and Bond Administration

The cash bond administration ("CBA") function for this transaction will be carried out by PFPLC. Around nine people within the finance and treasury functions of the organisation are involved in the CBA. The team currently handles CBA for 14 transactions. The function is led by a manager with 11 years' experience of securitisation. He reports into the head of finance who also has significant securitisation experience.

Once a deal is closed, the structured finance team will produce a summary document, which includes deal structure, triggers and conditions that the CBA teams needs to be aware of to administer the deal. A training session will also be held to review the transaction details and will, if needed, give particular focus to any features of a transaction that are novel.

Cash flows are reviewed jointly by the structured finance and CBA team monthly. A bespoke system is used for cash management. This systems also provides inputs for the bond administration calculations, which are done using a Microsoft Excel model. All the CBA models have been independently validated by Deloitte & Touche ("D&T").

There is both an internal and external audit of the CBA function annually. The external audit is performed by D&T, which confirms the redemption fund calculation every year for each transaction. To date, no major concerns have been highlighted in any of the external audits.

Fitch is satisfied that the PFPLC team meets the necessary requirements for providing adequate CBA services to the transaction.

■ Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events. Its structured finance performance analytics team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is accessible at www.fitchratings.com.

Please call the Fitch analysts mentioned on the first page of this report with any queries regarding the initial analysis or the ongoing surveillance.

Issuer Report Grades

Fitch has published the third edition of the Issuer Report Grades (see Fitch's "*Issuer Report Grades*

May 2006 Update" report, dated 5 June 2006 and available at www.fitchratings.com). This is part of an ongoing effort to improve the transparency of transaction performance to investors. Transactions are scored on a system ranging from one star (meets basic requirements) to five stars (outstanding). Past Paragon transactions have a current score of four stars, which equates to "Good" meaning the issuer provides good, user-friendly reporting in all areas and meets Fitch's published reporting standards in most areas.

Appendix 1: Rating Methodology

Rating Methodology

When rating a note issuance by a non-conforming mortgage loan issuer, Fitch uses its UK housing recession study as a benchmark (see "*UK Residential Mortgage Default Model III*", dated 26 July 2005 and available at www.fitchratings.com). The study showed that LTV (reflecting the size of a borrower's down payment) and affordability measures proved to be the primary indicators of default risk in the UK. However, pools containing loans made to less creditworthy borrowers require increased scrutiny.

Therefore, Fitch accounts for the additional risks associated with non-conforming borrowers by stressing certain aspects of the model. For instance, default probabilities are increased in cases where a borrower has an adverse credit history, which is typical of non-conforming borrowers as a whole. Furthermore, loss severity is generally higher, owing, in part, to the increased carry cost associated with higher-rate loans.

Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make the mortgage payments. The willingness of a borrower to pay is usually measured by the LTV, while measures such as debt-to-income ("DTI") ratios indicate the affordability of a loan to a borrower.

Affordability Measures

Fitch's model factors in affordability to calculate overall credit enhancement by using the relevant measure, as provided by the seller. Affordability measures can include income multiples and DTI, and should give an indication of the portion of the borrower's income that will be going to pay the mortgage and other fixed monthly payments. Base default probabilities are determined by using a matrix that considers each loan's affordability factor and LTV. The matrix classifies affordability into seven classes, the lowest of which (Class 1) encompasses loans with income multiples less than 2.0x and the highest of which (Class 7) encompasses all loans with income multiples exceeding 4.0x. Typically, pools of non-conforming loans have a weighted average income multiple of 2.5x, which equates to a base default probability of 6%-44%, depending on LTV.

Loan-to-Value Ratios

Fitch's model assumes higher default probabilities for high-LTV loans and lower default probabilities for low-LTV loans. The main reason for this is that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low-LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property.

Since the inherent risk of lending to non-conforming borrowers is, to some extent, greater than for prime borrowers, lenders usually require a larger upfront equity investment. Therefore, LTVs are generally slightly lower on non-conforming mortgage pools than on prime.

Adjustments to Default Probability

Fitch adjusts the base default rates on a loan-by-loan basis to account for individual loan characteristics of the collateral across all rating levels.

- **Credit History:** a crucial aspect of evaluating a pool of non-conforming mortgage loans is to examine the credit history of the borrower. Namely, adverse credit events such as CCJs or bankruptcy orders, and delinquencies to date can be a harbinger of future loan performance. Even when a borrower's record is currently "clean", the assumed default probability for loans made to borrowers with prior issues is increased. Fitch also focuses on the limits the originators enforced when taking into consideration a borrower's adverse credit history.

- **Loan Purpose:** Fitch believes that a financially distressed borrower is more likely to default on an investment property than on a primary residence. Accordingly, the agency increases the base default rates in such cases by 10%-33%.

- **Borrower Profile:** Fitch increases the default probability on loans to self-certified borrowers by 25%-50% to account for the lack of independent verification of income.

Appendix 1: Rating Methodology (Continued)

- **Arrears Status:** Fitch penalises, on a loan-by-loan basis, the extent to which a loan is in arrears as of the cut-off date. Default probabilities for loans that are between one day and three months delinquent are increased by 1.25-1.75 times, whereas loans more than three months delinquent are assumed to have a 100% probability of default.

- **Underwriting Quality:** Fitch's review and analysis of the origination process determines whether it decreases default rates by up to 25% or increases them by up to 250%.

Loss Severity

To estimate the loss severity on the loans in a portfolio, Fitch uses its UK default study that examines home price movements in the different regions of the country. By focusing on the recession of the late 1980s/early 1990s, various stressed MVDs were estimated.

When calculating recovery value, Fitch's model reduces each property valuation by the MVD, repossession costs and the costs to the servicer of carrying the loan from delinquency through default.

The agency increases the MVD assumptions for high-value ("jumbo") properties by 10%-30%. Such properties are assumed to have larger MVDs owing to their smaller marketplace and less precise pricing information.

On the basis of worst-case information gathered from UK mortgage lenders, Fitch assumes the fixed costs of foreclosure to be GBP3,000, which includes litigation costs prior to possession, asset management fees, solicitor's fees for the property sale and valuer's fees. Fitch assumes variable costs of 2.5% based on the property value after the MVD, which represents estate agent costs for the sale of the property. To calculate the carrying cost, the agency assumes that the borrower does not pay interest for a period of 18 months on owner-occupied properties and 12 months on buy-to-let properties, and that interest accrues during this period at the current weighted average interest rate of the reference portfolio.

Excess Spread

Excess spread represents the monetary difference between the income received by the issuer from the borrowers and the interest on the notes and other expenses paid by the issuer. Any reserve fund will be replenished from available excess spread if it is drawn. The actual value of excess spread depends on levels of delinquencies, defaults and prepayments, as well as the weighted average interest rate of the reference mortgage portfolio throughout the life of the transaction.

Cash Flow Assumptions

When assessing the credit to be given for potential excess spread throughout the life of the transaction, Fitch makes some key stress assumptions:

- Prepayment rates represent the proportion of the mortgage pool that it is assumed will prepay annually.

- The weighted average coupon ("WAC") compression assumption addresses the risk that high-margin loans will pay off first, resulting in a lower WAC for the remaining pool, and takes the form of a discount applied to the mortgage income received by the issuer from the borrowers (e.g. for 'AAA' rated notes, the weighted average interest rate ultimately received by the issuer from the borrowers is equal to the initial weighted average interest rate minus the WACC assumed for the 'AAA' stress scenario).

- Gross losses are the aggregate expected loss level under the applicable rating stress scenario.

Appendix 2

Transaction Comparison

Issuer	FF7
Closing Date	[Jan 2007]
Gross C/E WAFF * WALS (%)	
AAA	2.23
AA	1.19
A	0.59
BBB	0.21
BB	0.06
WAFF (%)	
AAA	25.16
AA	20.93
A	16.67
BBB	12.39
BB	8.11
WAMVD (%)	
AAA	45.91
AA	41.53
A	37.15
BBB	30.67
BB	24.20
WARR (%)	
AAA	90.06
AA	91.02
A	92.50
BBB	94.92
BB	96.92
General Information	
Collateral Balance (GBP)	329,702,595
WA CBAL (GBP)	52,562
Largest CBAL (GBP)	1,058,192
Property Characteristics	
WA Original Valuation (GBP)	116,576
Largest Indexed Valuation (GBP)	2,411,360
L/OM/SE Concentration (%)	47.72
Less Liquid Properties (%)	12.28
Loan to Value (%)	
WA OLTV	63.35
WA CLTV	54.40
WA CLTV (Indexed Values)	39.26
OLTV>80%	25.80
OLTV>90%	14.52
Borrower Characteristics (%)	
CCJs	0.00
BO/IVA	0.00
Past Arrears	0.00
90+ Arrears	3.82
WA ICR for Buy-to-let	-
Mortgage Characteristics (%)	
Self Certified (or income non-verified)	0.17
Buy-to-Let	-
Interest Only	68.74
WA Seasoning	122.64
WA Stabilised Margin over Libor (%)	2.21

Source: Fitch

Appendix 3: First Flexible (No. 7) PLC

RMBS/UK

Capital Structure

Class	Rating	Size (%)	Size (GBPm)	C/E (%)	Index	Initial Spread	I/P PMT Frequency	Maturity	ISIN
A	AAA	97.00	[257.00]	3.30	Libor 3m	[.]	Quarterly	2033	[.]
B	AA	1.50	[4.00]	1.80	Libor 3m	[.]	Quarterly	2033	[.]
C	A	1.50	[4.00]	0.30	Libor 3m	[.]	Quarterly	2033	[.]

	Size (%)	Size (GBPm)
Initial Reserve Fund	[0.30]	[0.8]
Target Reserve Fund	[0.30]	[0.8]

Key Information

Closing Date	[25 January 2007]	**Originators**	PML/MTL
Country of Assets	UK	**Seller**	PML/MTL
Settlement	Clearstream & Euroclear	**Primary Servicer**	PFPLC/MTS
Listing	London Stock Exchange	**Special Servicer**	Homeloan Management Ltd
Lead Analyst Contact Information	Ketan Thaker ketan.thaker@fitchratings.com +44 20 7862 4124	**Lead Manager**	Barclays Bank Plc
		Cash/Bond Administrator	PFPLC

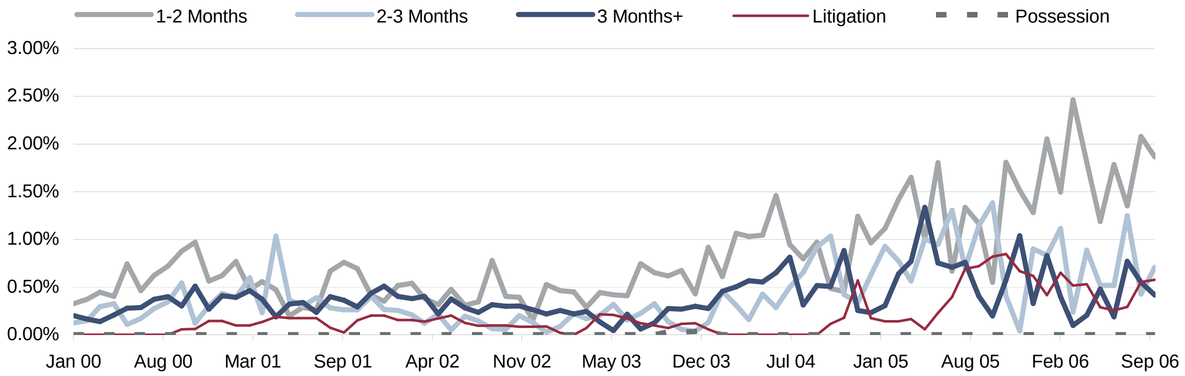
Rating Triggers

Counterparty Type	Minimum Rating Requirement	Counterparty	Current Counterparty Rating
Liquidity Facility	F1	-	-
Bank Account	F1	[National Westminster Bank]	AA+/F1+
Currency Swap	A+/F1	-	-
Interest Rate Swap	A/F1	JPMorgan Chase Bank	A+/F1+
GIC Provider	F1	-	
Interest Rate Cap	A+/F1	-	

Credit Committee Highlights

Asset Analysis	Cash Flow Analysis
Mainly flexible owner-occupied mortgage pool	No credit for minimum margin mechanism for ‘AAA’ rating
Highly seasoned pool – [122.65] months of WA seasoning	Reserve Fund of 0.30%
No adverse credit history	Redraw facility equal to 5% of maximum drawable balance of flexible mortgages
[99.93%] of loans on SVR	No fixed/floating interest rate risk
Low LTV and granular pool	No prefunding or non-verified mortgages

First Flexible 1 Arrears History



Source: Fitch