STANDARD & POOR'S

STRUCTURED FINANCE

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Presale Report: U.K. RMBS

First Flexible (No. 7) PLC

£265 Million (Equivalent) Mortgage-Backed Floating-Rate Notes

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This presale report is based on information as of Jan. 9, 2007. The credit ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final credit ratings that differ from the preliminary credit ratings.

Class	Prelim. rating*	Prelim. amount (Mil. £ equiv.)	Available credit support¶ (%)	Interest	Step-up margin	Optional call date	Legal final maturity
A	AAA	257	3.3	Three-month British pound sterling LIBOR plus a margin	March 2012	March 2011	September 2033
B	AA	4	1.8	Three-month British pound sterling LIBOR plus a margin	March 2012	March 2011	September 2033
C	A	4	0.3	Three-month British pound sterling LIBOR plus a margin	March 2012	March 2011	September 2033

**The rating on each class of securities is preliminary as of Jan. 9, 2007, and subject to change at any time. Final credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely interest and principal.*
¶This credit support uses current figures. The cash reserve will be 0.3% of the initial balance of the notes for the life of the transaction.

Transaction Participants	
Originators	Paragon Mortgages Ltd. and Mortgage Trust Ltd.
Arranger	Barclays Capital
Security trustee	Citicorp Trustee Co. Ltd.
Substitute servicer	Homeloan Management Ltd.
Sellers	Paragon Mortgages Ltd. and Mortgage Trust Services PLC
Administrators and servicers	Paragon Finance PLC and Mortgage Trust Services PLC
Substitute administrator	Homeloan Management Ltd.
Interest rate swap counterparty	JPMorgan Chase Bank, N.A.
Flexible drawing facility provider	Barclays Bank PLC
Transaction account provider	National Westminster Bank PLC

Supporting Ratings	
Institution/role	Ratings
National Westminster Bank PLC as transaction account provider	AA/Stable/A-1+
Barclays Bank PLC as flexible drawing facility provider	AA/Stable/A-1+
JPMorgan Chase Bank, N.A. as interest rate swap counterparty	AA-/Watch Pos/A-1+

Transaction Key Features	
Expected closing date	Jan. 25, 2007
Collateral	Portfolio of first-ranking residential and commercial mortgages secured over freehold, leasehold, or feuhold properties in the U.K.
Principal outstanding of provisional mortgage pool (Mil. £ equiv.)	297.97
Number of properties	6,272
Geographic concentration - London and southeast (%)	46.91
Property occupancy	97.15% owner-occupied, 2.85% commercial
Weighted-average LTV ratio (%)	57.43
Average loan size balance (£)	47,508
Loan size range (£)	1—1,058,192
Weighted-average seasoning (years)	10.60
Weighted-average asset life remaining (years)	10.35
Weighted-average mortgage interest rate (%)	7.02
Redemption profile	30.22% repayment, 69.78% interest-only
Loan purpose	36.61% purchase, 63.39% remortgage
Expected excess spread at closing (%)	1.96
Cash reserve	0.3% for the life of the deal
Maximum LTV ratio (%)	166.17
Principal deficiency ledger	0
Arrears (%)	9.47
Percentage of jumbo loans (> £150,000) by number of loans (%)	4.92

Transaction Summary

Standard & Poor's Ratings Services has assigned preliminary credit ratings to the £265 million (equivalent) mortgage-backed floating-rate notes to be issued by First Flexible (No. 7) PLC.

The preliminary ratings were assigned based on the provisional pool cut, comprising £298 million of residential mortgages. No new loans are expected to be added to the provisional pool before closing.

The ratings reflect the transaction's sound payment structure, the servicers' ability (Paragon Finance PLC and Mortgage Trust Services PLC) to perform their roles, and the transaction's cash flow mechanics.

Further key considerations include the strong protection for the class A and B noteholders, provided by a combination of the subordinate class C notes (1.5% of the notes issued), the first-loss fund (0.3% of the notes issued at closing), and excess spread to cover credit losses and income shortfalls. Strong protection for the class C noteholders is provided by the first-loss fund and excess spread to cover credit losses and income shortfalls.

The issuer is incorporated as a public company and was established under the laws of England and Wales on Nov. 1, 2002. Paragon Mortgages (No. 16) Ltd. holds 26% of the issuer's share capital, with the remaining 74% held by The Paragon Group of Companies PLC, the ordinary shares of which are listed on the London Stock Exchange.

The issuer was established to issue the notes and purchase the mortgage pool. Even though the issuer was established 49 months ago, it has not commenced operations and no audited financial statements of the issuer's accounts have been produced. Furthermore, there has been no material adverse change in the financial position or prospects of the issuer, and no significant change in its trading or financial position. The issuer has five independent directors. It fully meets Standard & Poor's SPE criteria for insolvency remoteness.

Paragon Mortgages is a private company incorporated in England, and is the originator of 3.86% of the mortgages in the portfolio, either directly or indirectly via broker intermediaries. It is an established lender and has substantial experience of this sector having continuously managed residential mortgages since inception.

Mortgage Trust, an established mortgage lender, was acquired by the Paragon Group on June 30, 2003, and has originated or acquired 96.08% of the mortgages in the portfolio. Like Paragon Mortgages, Mortgage Trust is an established lender and has substantial experience of the residential mortgage sector having continuously managed residential mortgages since inception.

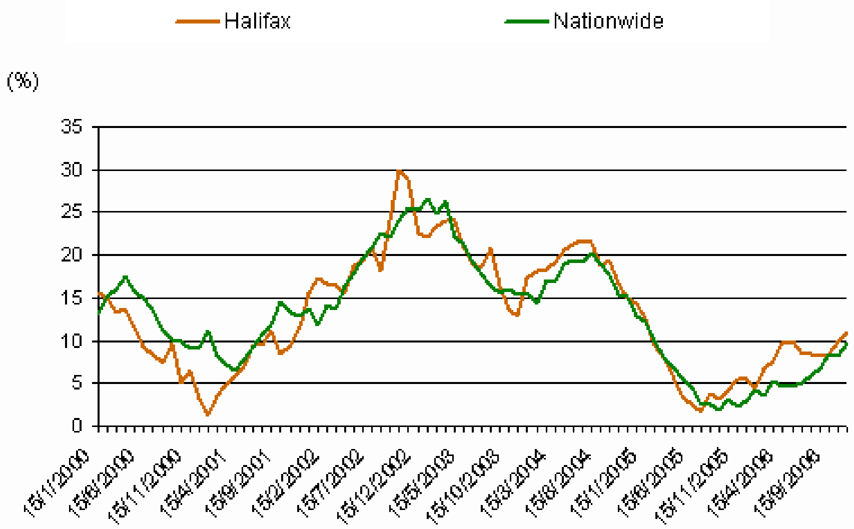
Notable Features

Paragon's mainstream Paragon Mortgages securitization program is mostly made up of newly originated prime buy-to-let mortgages. In contrast, First Flexible (No.7) PLC consists almost entirely of highly seasoned prime residential mortgages. Most of these mortgages have also been previously securitized.

Sectoral Credit Highlights

The U.K. housing market experienced a brief slow down in the course of 2005, before picking up again since the beginning of 2006 (chart 1). The buoyant housing market has had contrasting effects on households' creditworthiness.

Chart 1: U.K. House Prices On The Rise Again



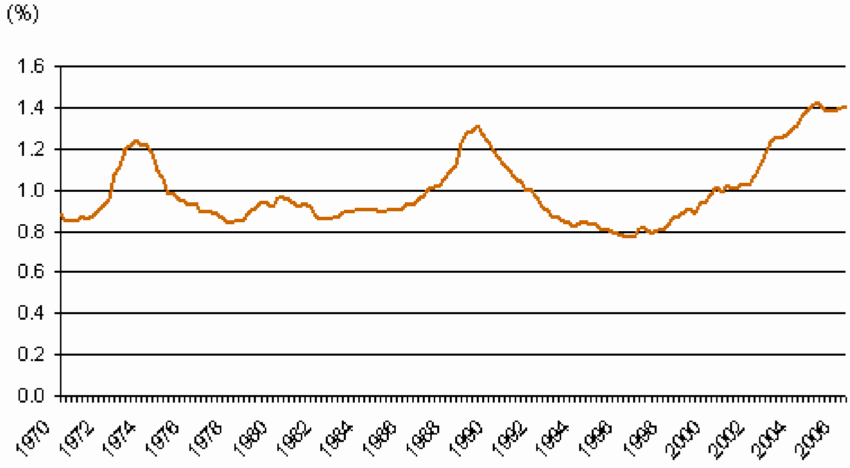
Source: Halifax, Nationwide

The higher value of the stock of housing means that the net household wealth has kept rising (by 9% in 2005). In its latest Financial Stability Review, the Bank of England noted that the ratio of net household wealth to income has increased by 4% in the past year, and is a third higher than at its trough about 10 years ago.

At the same time, the growth in personal indebtedness has now created areas of vulnerability. The household debt to income ratio has reached 146% (table 1), one of the highest in Europe, while the price-to-income ratio has reached a 36-year high (chart 2).

Table 1: Household Debt To Income (%)	
	(%)
1995	92.00
1996	92.00
1997	92.00
1998	96.00
1999	100.00
2000	101.00
2001	105.00
2002	115.00
2003	125.00
2004	137.89
2005	144.61
2006-Q1	146.00
Source: CSO	

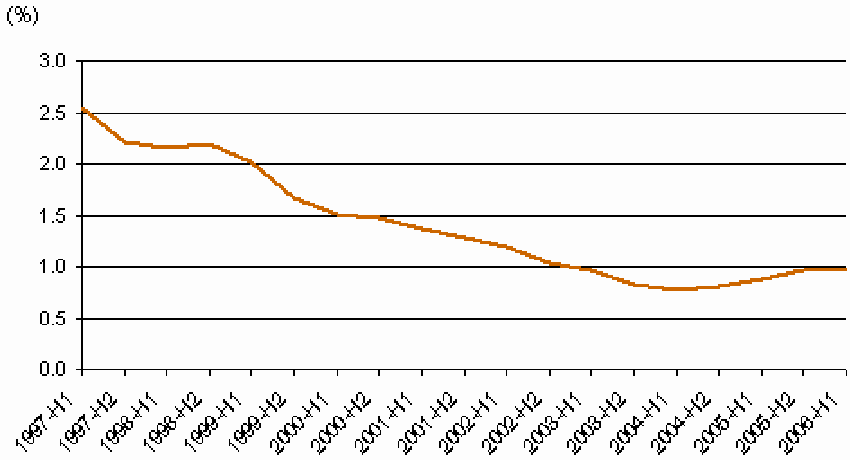
Chart 2: Price To Income Ratio (%)



Source: OECD

U.K. lenders have been able to take advantage of the current interest rate configuration by offering competitive fixed interest rates and longer mortgage terms. As a result, mortgage lending has continued to grow, although more slowly (about 6% in the 12 months to September 2006) than in past years. But the number of mortgages in arrears has started to creep up again since the middle of last year, admittedly from very low levels (chart 3) and individual insolvencies were up 55.4% in the last 12 months to the third quarter of 2006. The introduction of a new bankruptcy regime might have increased the incentives for bankruptcy in England and Wales, but insolvencies also increased in Scotland and Northern Ireland, where there has been no change in regime.

Chart 3: Proportion Of Mortgages In Arrears
(% of total loans)



Source: Council of Mortgage Lenders

Standard & Poor's expects the U.K. housing market to continue to grow, albeit at lower rates (around 5%) in 2007 because of strong aggregate household balance sheets, structural factors linked to changes in the U.K. demographics (150,000 homes are being built each year, while 190,000 households are being created), and sophisticated lending vehicles that are better able to spread over time the bulk of higher interest payments. But at the margin, it is likely that more households will be struggling to pay back their debt in the face of higher interest rates, leading to a further increase in arrears and insolvencies.

Strengths, Concerns, And Mitigating Factors

Strengths

- The borrowers are high-quality, with no adverse credit history (for example, no county court judgments).
- The sellers and administrators have an experienced and sound understanding of the residential mortgage market.
- The transaction includes an efficient payment structure for investors, which provides support to all the notes.
- The pool is well-seasoned (by an average of 10.6 years), has a low weighted-average LTV ratio (57.43%) and a low weighted-average indexed LTV ratio of 29.09% (source: Nationwide).

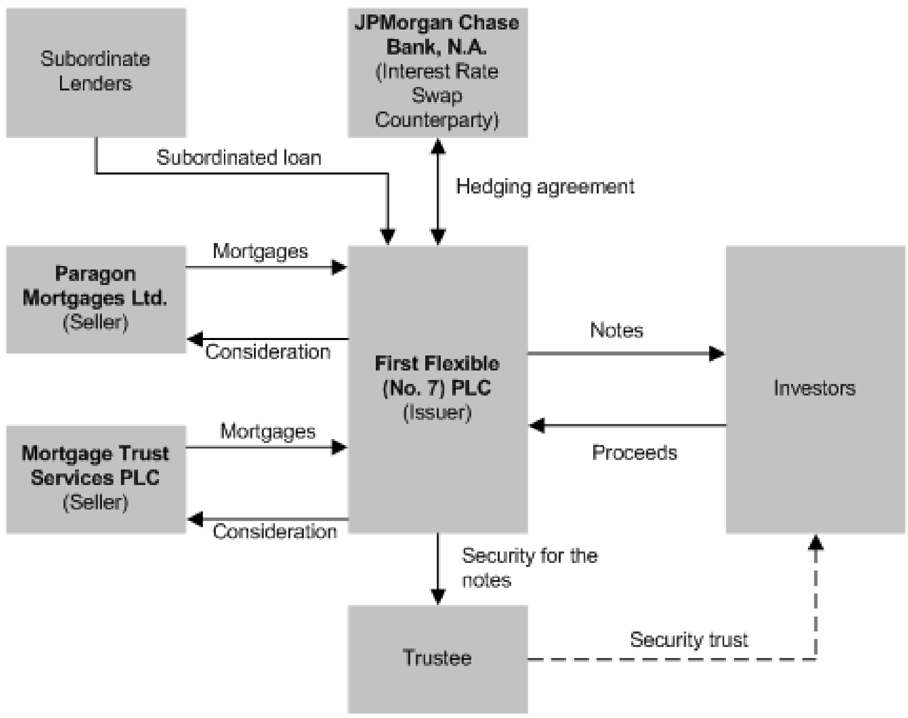
Concerns and mitigating factors

- The issuer must make mandatory further advances, and may opt to make discretionary further advances. However, discretionary further advances cannot be made from noteholders' funds, but instead may be made by drawing against the subordinated loan. Further advances will be funded through principal redemption funds.
- Flexible mortgages (accounting for 52.86% of the provisional mortgage pool) allow borrowers to prepay their mortgages and subsequently redraw the amounts prepaid. Further advances in relation to these redraws are the obligation of the issuer. There is a concern that under severe circumstances, the issuer will have insufficient available funds to meet these obligations. The potential redraw risk is covered through the flexible drawing facility provided by Barclays Bank PLC. Standard & Poor's stress tests confirm that the potential redraw risk can be funded through available redemption funds.
- Of the provisional pool, 9.47% is in arrears. This has been adequately sized for in the credit and cash flows.

Transaction Structure

At closing, and in accordance with the terms of a mortgage sale agreement, the issuer will acquire from Paragon Mortgages and Mortgage Trust Services the beneficial interest in certain mortgages (issuer mortgages). These issuer mortgages will form part of the security for the notes (see "*Security for the notes*"). The borrowers of the mortgages are individuals or limited liability companies (with guarantees from individuals) incorporated under U.K. law (see chart 4).

Chart 4: First Flexible (No. 7) PLC Transaction Structure



At closing, the issuer will purchase the pool of mortgages from the sellers with the funds obtained from issuing the class A, B, and C notes.

All the notes will be secured over all of the mortgages in the pool. Noteholder repayments will be financed from the cash flow generated on the mortgages.

Conversion of mortgages

The administrator may convert a borrower's mortgage into any other type of mortgage if certain conditions are met. These conditions include the following:

- The trustee must not have given an enforcement notice.
- Conversion must not affect the then-current ratings on the notes.
- As of the closing date of the transaction, neither Paragon Mortgages nor Mortgage Trust have failed to repurchase a mortgage for breach of any of its respective representations for that mortgage.
- The issuer must enter into a hedging arrangement, if required, to ensure that conversion will not affect the ratings on the notes.

Mandatory and discretionary further advances

If the issuer is unwilling or unable to make a discretionary further advance, Paragon Mortgages or Mortgage Trust may decide to do so on the condition that this advance is secured by a second mortgage over the property in question.

In all cases where Mortgage Trust makes a mandatory further advance, the issuer will be obliged to make funds available from the principal ledger to fund this advance. If there are insufficient funds in the principal ledger, the administrator may draw on funds under the subordinated loan agreement to cover this deficiency.

In accordance with Standard & Poor's rating assumptions, as Paragon Finance does not have a sufficient rating, no reliance was placed on the mandatory further advances being financed out of the subordinated loan facility. Standard & Poor's is comfortable that the issuer's obligations to the mandatory further advances can be funded out of available redemption funds.

Redraw risk

Of the mortgages in the provisional pool, 52.86% are flexible mortgages. The final balance of the collateral pool is expected to have a similar proportion of flexible mortgages. The terms of flexible mortgages allow borrowers to redraw amounts that have been paid in excess of the scheduled mortgage payments. If a borrower prepays more than 20% (or lower as agreed at origination) of the scheduled principal balance at any time, the borrower must pay a commitment fee of at least 1% of the amount by which the prepayment exceeds 20%. Borrowers can still prepay amounts above this limit without incurring a commitment fee, provided they cancel their right to redraw amounts above 20% of their current mortgage balance. Where redraw requests are validly made and funded, borrowers ultimately have the obligation to repay all amounts borrowed by the maturity dates of their mortgages.

In circumstances where the redraw requests cannot be funded, borrowers could bring claims for damages, which might ultimately affect the issuer's obligations to noteholders. As yet there is no legal precedent to give clear guidance on how courts would treat potential claims against Mortgage Trust for redraw requests that are valid but cannot be funded.

The issuer will mitigate this redraw risk by entering into a flexible drawing facility agreement with Barclays Bank. As the provider of this facility, Barclays agrees to make available an appropriately sized capped reserve to reduce any potential liquidity strain that may arise from redraw under the flexible mortgages.

Collateral Description

The provisional mortgage pool of £298 million comprises 6,272 loans and was drawn up on September 30, 2006. The loans in the provisional portfolio were originated or acquired by Paragon Mortgages and Mortgage Trust between 1982 and 2005.

Features of the provisional mortgage pool include the following:

- Each loan is secured by a first legal charge of a residential property in the U.K.
- Of the pool, 97.15% are owner occupied and 2.85% are commercial mortgages.
- Of the pool 86.38% of the loans have been drawn from recently called securitizations.
- Of the mortgages, 30.22% are repayment mortgages and 69.78% are interest-only mortgages.
- Of the loans, 36.61% were used for house and apartment purchases and 63.39% were used for remortgaging.
- The weighted-average LTV ratio of the mortgage pool is 57.43% (see chart 5).
- The average outstanding mortgage balance is £47,508.
- The largest concentration of mortgages by geographic area is in southeast England (including London) at 46.91%. There are no significant concentrations in other regions.
- The weighted-average term to maturity is approximately 10.60 years (see chart 6).

Chart 5: Distribution Of Loans By Original LTV Ratio

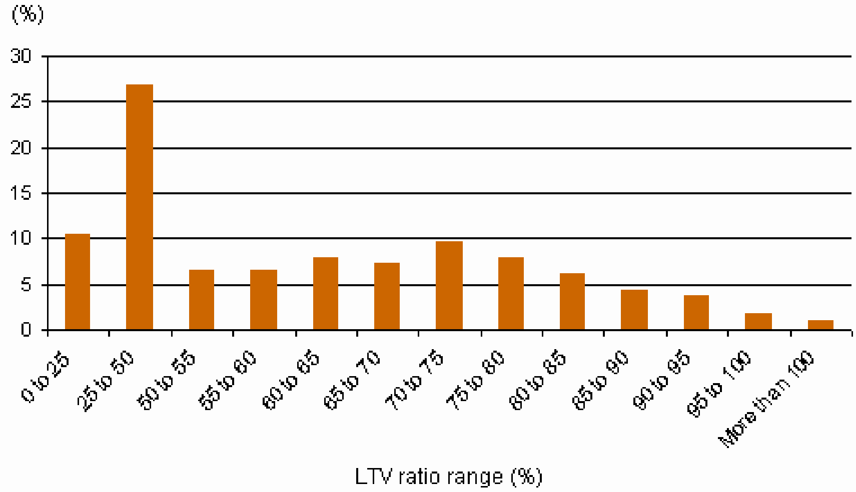


Chart 6: Distribution Of Loans By Remaining Time To Maturity

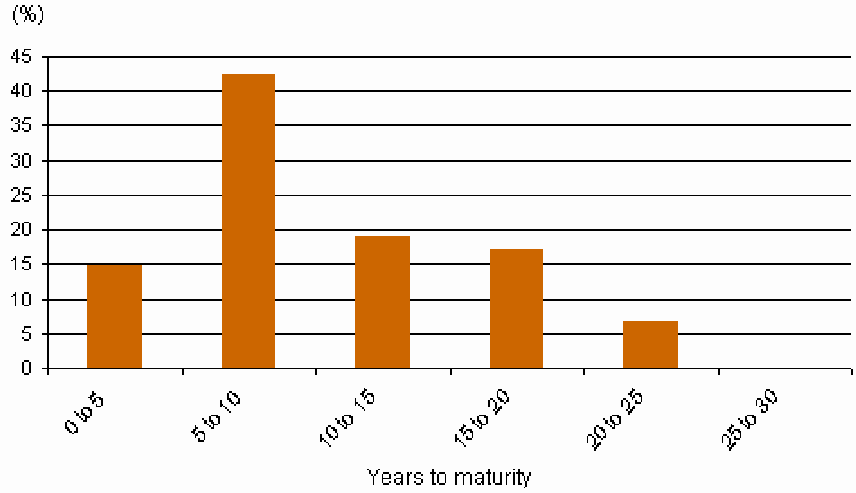


Chart 7: Distribution Of Loans By Current Principal Balance

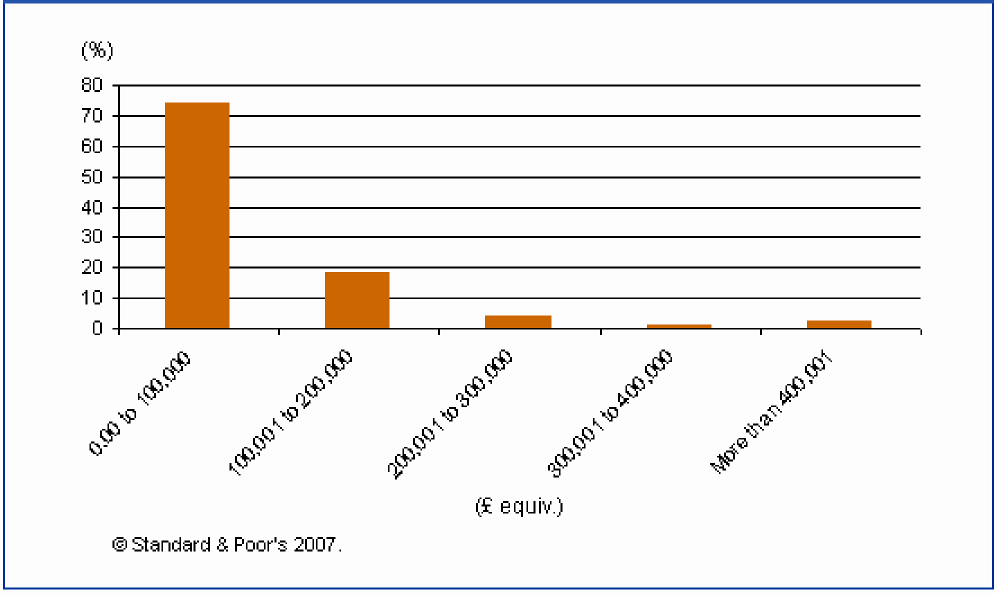
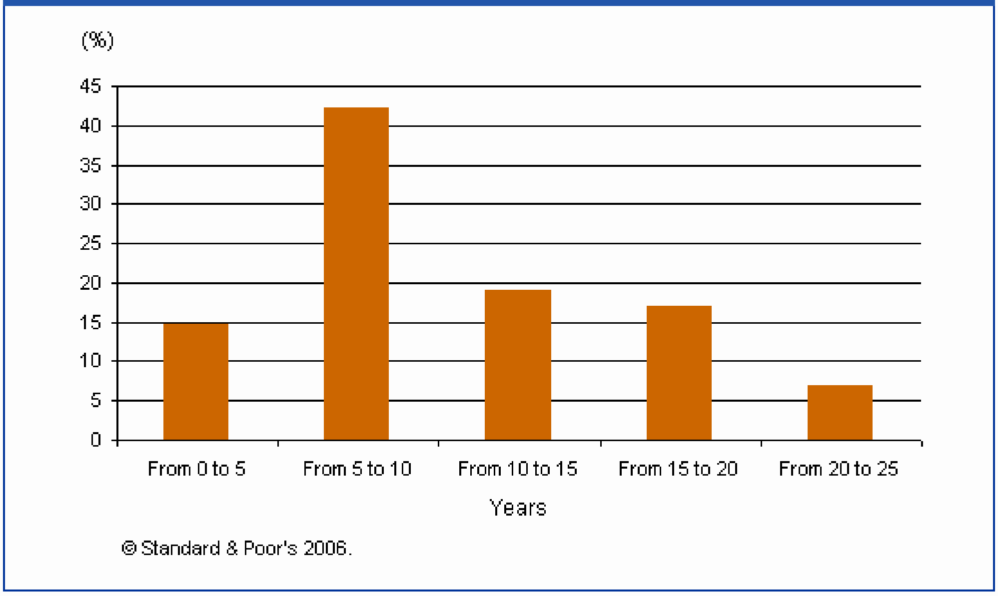


Chart 8: Distribution Of Loans By Remaining Time To Maturity



Credit Structure

Mortgage loan interest rates

The issuer is expected to issue the class A, B and C notes. The class A notes will rank senior to the class B and C notes. The class B notes will rank senior to the class C notes.

For all notes, interest will be payable quarterly based on three-month British pound sterling LIBOR, plus a class-specific margin. If not already redeemed, the margins on all classes of notes will double from the step-up date in March 2012.

On behalf of the issuer and trustee, the administrators will set the rates of interest applicable on the relevant mortgages (other than the fixed-rate, base-rate-linked, or LIBOR-linked mortgages). The administrators must ensure that the weighted-average of the rate of interest applicable to the mortgages after taking into account all hedging arrangements, income received from the investment of funds in the transaction account, and income from redemptions, is not lower than 1.8% until March 2012 and 2.2% thereafter above the three-month pound sterling LIBOR applicable.

The administrators may set a lower rate of interest if the shortfall can be provided out of amounts available in the shortfall fund.

Cash collection arrangements

As administrators, Paragon Finance will be responsible for the day-to-day administration and ongoing servicing of the underlying portfolio of mortgages originated by Paragon Mortgages. Mortgage Trust Services will be responsible for the day-to-day administration and ongoing servicing of the underlying portfolio of mortgages originated by Mortgage Trust. Paragon Finance and Mortgage Trust Services are also responsible for producing all reports and accounts for the trustee and Standard & Poor's in connection with the performance of the mortgages.

Standard & Poor's is comfortable with Paragon Mortgages' collection and default management procedures (as administrators). An ongoing monitoring of their performance will be an integral part of the surveillance process.

Transaction account and reserve account

National Westminster Bank (NatWest; AA/Stable/A-1+) will provide the issuer's transaction account. Payments from Paragon Mortgages' borrowers will be paid into a collection account, which is also provided by NatWest, but held in the name of Paragon Mortgages. Cash in the collection accounts will be transferred to the issuer's transaction account. Similarly, payments from Mortgage Trust's borrowers will be paid into a collection account at Barclays Bank, and held in the name of Mortgage Trust Services. Cash will then be transferred to the issuer's NatWest transaction account.

Security for the notes

Under the deed of charge to be entered into between the issuer and the trustee, the notes will be secured by:

- A first-fixed charge over the issuer's interest in the mortgages;
- The issuer's rights under various insurance policies relating to the securitized mortgages;
- The issuer's rights under the transaction documents; and
- The issuer's rights to all money in the issuer's bank account with NatWest.

Additionally, the issuer's security interest in any cash investments is secured by way of a floating charge that ranks behind preferred creditors.

Citicorp Trustee Co. Ltd., as security trustee, will supervise the administration of the issuer under the terms of the transaction and generally represent and protect the interests of the noteholders. Only the trustee is able to enforce the security under the terms and conditions of the notes and it must always act in the best interests of the noteholders.

Subordinated loan and shortfall fund

Paragon Finance and Mortgage Trust Services will also provide a subordinated loan to the issuer, which will fund the first-loss fund on the closing day. The first-loss fund is a cash reserve, which forms part of the credit enhancement for the notes.

Before closing, Paragon Finance and Mortgage Trust Services will make available to the issuer a subordinated loan facility that will be drawn on closing. The facility will be used to establish the first-loss fund, sized at 0.3% of the value of the outstanding notes (the "required amount") on closing. The cash in the first-loss fund will be transferred to the revenue ledger, and will then be applied by the issuer in accordance with the priorities of payment: payment of senior fees and expenses, interest on the notes, and clearance of the principal deficiency ledger.

Paragon Finance and Mortgage Trust Services may agree to make sufficient funds available to allow the issuer to make discretionary further advances if they cannot be funded from the available redemption funds.

Additionally, Paragon Finance and Mortgage Trust Services may, at its discretion, make further amounts available under the subordinated loan agreement. They may do this to reduce the principal deficiency ledger to zero, and to bring the first-loss fund up to the required amount, thus enabling the issuer to fund the discretionary further advances from available redemption funds.

Further amounts may also be borrowed (i) to cover swap and hedging amounts that are junior in the priority of payments, (ii) to pay the issuer any prepayment fees waived by the administrator, and (iii) to fund the purchase of additional hedging instruments if they cannot be funded out of the issuer revenue ledger in accordance with the priority of payments.

Amounts borrowed under the subordinated facility are deeply subordinate in the priority of payments.

Redemption of the notes

Based on the provisional pool data, the issuer will purchase mortgages with an approximate principal balance of £28,203,273 that have an outstanding arrears amount in excess of one monthly payment. This outstanding arrears amount is known as the "purchased preclosing accruals and arrears".

The notes will be subject to mandatory redemption in part on each quarterly interest payment date, from available funds. The class A, B and C notes will be redeemed pro rata. While the class A notes are outstanding, pro rata redemption will be conditional on the following:

- The ratio of the class B and the class C notes to the aggregate outstanding of all classes of notes must be twice the ratio at closing (i.e., credit support for the class A notes has doubled);
- The balance on the principal deficiency ledger must be zero;
- The minimum outstanding amount of the class B and C notes must be 1.19% of the notes to be issued; and
- The three-months arrears balance must be lower than 15%.

The issuer may redeem all (but not part) of the notes at their outstanding principal amount, together with accrued interest, if:

- A withholding tax is imposed on the notes or on payments by either party to any swap agreement; or
- The aggregate principal amount outstanding of the notes falls below 20% of the original amount of notes issued.

The issuer may also redeem the notes, at its option, on the interest payment date in March 2011 or at any subsequent interest payment date.

If not already redeemed, all notes will be redeemed at the legal final maturity date in 2033.

Withholding tax

The issuer will not be required to gross up for any withholding tax that might be imposed on the notes in future.

Purchase of preclosing arrears

Based on the provisional pool data, the issuer will purchase mortgages with an approximate principal balance of £28,203,273 that have an outstanding arrears amount in excess of one monthly payment. This outstanding arrears amount is known as the "purchased preclosing accruals and arrears".

Standard & Poor's Stress Test

The rating analysis includes a conservative assessment of the credit risk inherent in the transaction. The credit enhancement levels have been sized after analyzing the effect that severe stress scenarios would have on the collateral. In determining the credit quality of a mortgage pool, an estimate must be made of a worst case of potential losses that could occur because of foreclosures. This estimate of potential losses is the amount of loss protection needed. All types of loans are thus eligible for inclusion in a pool, provided their credit risk can be quantified and adequate loss protection is supplied. Table 2 shows the range of the WAFF and WALS at each rating level for the provisional pool.

Table 2: WAFF And WALS At Each Rating Level

	WAFF (%)	WALS(%)
AAA	17-19	3.0-5.0
AA	13-15	2.0-4.0
A	12-14	1.5-3.5

The cash flows simulate the performance of this portfolio in the transaction's documented structure under certain stressed scenarios. Stresses are applied to default and recovery, interest, and prepayment rates.

Over the past few years, the U.K. housing market has experienced significant house price inflation. To address this trend, Standard & Poor's penalized mortgage loans that were originated in the 18 months before closing, with higher market value declines. This leads to higher credit enhancement requirements at all rating levels.

In addition, the issuer will make use of the basis swap to prevent mismatches in interest rates on any fixed-rate loans. The issuer's bank accounts must be held with appropriately rated providers.

Key Performance Indicators

Surveillance will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral will be analyzed, supporting ratings will be monitored, and regular contact will be made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.

The key performance indicators in the surveillance of this transaction will be:

- Increases in credit enhancement for the notes;
- Total and 90-day delinquencies;
- Cumulative realized losses;
- LTV ratios; and
- Constant prepayment rates.

Criteria Referenced

- "*Amended Structured Finance Legal Criteria For English And Welsh SPEs*" (published on Dec. 16, 2005).
- "*Revised Criteria for Rating U.K. Residential Mortgage-Backed Securities*" (published on July 5, 2001).
- "*Cash Flow Criteria for European RMBS Transactions*" (published on Nov. 20, 2003).
- "*Guidelines For The Use Of Automated Valuation Models For U.K. RMBS Transactions*" (published on Sept. 26, 2005).
- "*Methodology Behind European RMBS Indices*" (published on Nov. 8, 2004).
- "*European Legal Criteria for Structured Finance Transactions*" (published on March 23, 2005).
- "*Rating Affirmations And Their Impact On Investors*" (published on April 20, 2005).
- "*Servicer Evaluations Ranking Criteria*" (published in January 2006).

Related Articles

- "*Rating Transitions 2005: Activity More Muted, But Upgrades Still Dominate In European Structured Finance*" (published on Jan. 11, 2006).
- "*European RMBS H2 2006 Outlook Report: RMBS Continues To Dominate Funded Securitization Market*" (published on July 26, 2006).
- "*S&P Predicts Basel II To Spur European Covered Bond Issuance Ever-Higher*" (published on June 6, 2006).
- "*Home Information Packs May Affect Mortgage Risks In U.K. RMBS*" (published on Feb. 13, 2006).
- "*European Banks Manage Capital Through Recent Mortgage Risk Transfers*" (published on Dec. 9, 2005).
- "*U.K. Home Repossessions Rise, But Remain Well Below 1990s Peak And Do Not Yet Threaten RMBS*" (published on Nov. 10, 2005).
- "*Sophistication Of Mortgage Credit Pricing To Benefit European RMBS*" (published on Oct. 10, 2005).
- "*U.K. Nonconforming RMBS Index Report*" (published quarterly).
- "*Treatment Of Flexible Mortgage Loans In U.K. RMBS Transactions*" (published on April 6, 2005).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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