











08 APR 2022

## Fitch Affirms Paragon Mortgages No. 12

Fitch Ratings - London - 08 Apr 2022: Fitch Ratings has affirmed Paragon Mortgages (No. 12) Plc, as detailed below:

### Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Paragon Mortgages (No. 12) Plc			
• Class A1 LT XS0261644941	AAAsf 	Affirmed	AAAsf 
• Class A2a LT XS0261646136	AAAsf 	Affirmed	AAAsf 
• Class A2b LT XS0261646565	AAAsf 	Affirmed	AAAsf 
• Class A2c LT 69913BAB2	AAAsf 	Affirmed	AAAsf 
• Class LT	AAAsf 	Affirmed	AAAsf 

ENTITY/DEBT	RATING	RECOVERY	PRIOR
B1a XS0261647886			
• Class B1b LT XS0261648850	AAAsf ●	Affirmed	AAAsf ●
• Class C1a LT XS0261650161	A+sf ●	Affirmed	A+sf ●
• Class C1b CurrencyLT Swap Obligations	A+sf ●	Affirmed	A+sf ●
• Class C1b LT XS0261650674	A+sf ●	Affirmed	A+sf ●

#### RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	●	

For Paragon 12's class C1b-Currency Swap Obligations, Fitch's Global Structured Finance Rating Criteria expect a rating action on a note tranche to result in corresponding rating action on the related rated swap obligations.

## Transaction Summary

Paragon 12 is a buy-to-let RMBS transaction 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

**Interest-only Concentration:** There is a material concentration of interest-only (IO) loans maturing within a three-year period during the transaction's lifetime, peaking at 49.7% between 2029-2031. Where a concentration is present, Fitch will derive an IO concentration's weighted average foreclosure frequency (WAFF) and in the analysis apply the higher of IO concentration WAFF and the standard portfolio WAFF for each rating level. For this pool, Fitch has applied the FF based on the IO concentration WAFF.

**Portfolio Loss Floor:** ResiGlobal Model: UK applies a portfolio loss floor that is intended to ensure sufficient credit enhancement to mitigate against the risk of idiosyncratic recovery outcomes within a portfolio which would otherwise have a very low loss expectation. The portfolio loss floor is activated for Paragon 12.

**Stable Asset Performance:** Late stage arrears for Paragon 12's asset pool have remained low at 0.63%. 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 across the Paragon series of transactions.

**Rating Cap for Junior Notes:** The only credit enhancement available to the junior notes 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 (A+/Stable). As a result, these notes are capped at Barclays Bank plc's 'A+' Long-Term Issuer Default Rating (IDR), although this does not currently constrain the ratings.

### RATING SENSITIVITIES

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

The transaction's 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 credit enhancement available to the notes.

Fitch conducted sensitivity analyses by stressing the transaction base case FF and recovery rate (RR) assumptions, and examining the rating implications on all classes of issued notes. A 15% increase in the WAFF and a 15% decrease in the WARR has a one-notch impact on the class B notes and a two-notch impact on the class C notes.

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

Stable to improved asset performance driven by stable delinquencies and defaults would lead to increasing credit enhancement and potentially upgrades. Fitch tested an additional rating sensitivity scenario by applying a decrease in the WAFF of 15% and an increase in the WARR of 15%. The impact would be two notches for the class C notes. However, the ratings remain capped at Barclays Bank's Long-Term IDR.

The class A and B notes' ratings are at the highest level on Fitch's scale and cannot be upgraded.

### **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**

Paragon Mortgages No. 12 Plc

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool[s] and the transaction[s]. 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 pool[s] ahead of the transaction's [Paragon Mortgages (No. 12) Plc] initial closing. The subsequent performance of the transaction[s] 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.

### **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

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

### **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](http://www.fitchratings.com/esg)

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## **Applicable Criteria**

[Global Structured Finance Rating Criteria \(pub.26 Oct 2021\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub.04 Nov 2021\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub.04 Nov 2021\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub.28 Oct 2021\)](#)

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub.20 Sep 2021\)](#)

[UK RMBS Rating Criteria \(pub.23 Sep 2021\) \(including rating assumption sensitivity\)](#)

## **Applicable Models**

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

Multi-Asset Cash Flow Model, v2.12.0 (1)

ResiGlobal Model: UK, v1.3.3 (1)

## Additional Disclosures

### Solicitation Status

## Endorsement Status

Paragon Mortgages (No. 12) Plc    UK Issued, EU Endorsed

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