STANDARD & POOR'S

STRUCTURED FINANCE

Publication Date: March 1, 2007

Presale Report: RMBS/Prime/U.K.

Paragon Mortgages (No. 14) PLC

£1.5 Billion (Equivalent) Mortgage-Backed Floating-Rate Notes

Analyst: Eamonn Leamy, London (44) 20-7176-3696, eamonn_leamy@standardandpoors.com
Surveillance analyst: Sean Hannigan, London (44) 20-7176-3783, sean_hannigan@standardandpoors.com
Group e-mail address: StructuredFinanceEurope@standardandpoors.com

This presale report is based on information as of March 1, 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 date	Optional call date	Legal final maturity
A1	AAA/A-1+	765.0	16.9	One-month U.S. dollar LIBOR plus or minus a margin	Subject to annual reset on December 15 Maximum reset margin equal to the A2 sterling note margin	March 15, 2011	Sept. 15, 2039
A2	AAA	510.0	16.9	Three-month British pound sterling LIBOR /three-month EURIBOR /three-month U.S. dollar LIBOR plus a margin	March 15, 2012	March 15, 2011	Sept. 15, 2039
B	AA	112.5	9.4	Three-month British pound sterling LIBOR/three-month EURIBOR plus a margin	March 15, 2012	March 15, 2011	Sept. 15, 2039
C	A	112.5	1.9	Three-month British pound sterling LIBOR/three-month EURIBOR plus a margin	March 15, 2012	March 15, 2011	Sept. 15, 2039

**The rating on each class of securities is preliminary as of March 1, 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 payment of interest and principal.*
¶The notes will be split into the following classes and denominations at closing: A2a (British pound sterling), A2b (euros), A2c (U.S. dollars), B1a (sterling), B1b (euros), C1a (sterling), and C1b (euros).

Transaction Participants	
Originators	Paragon Mortgages Ltd. and Mortgage Trust Ltd.
Arranger	Deutsche Bank AG, London branch
Security trustee	Citicorp Trustee Co. Ltd.
Substitute servicer	Homeloan Management Ltd.
Underwriters	Deutsche Bank AG, London Branch, HSBC Bank PLC, and The Royal Bank of Scotland PLC
Sellers	Paragon Mortgages Ltd. and Mortgage Trust Services PLC
Administrators and servicers	Paragon Finance PLC and Mortgage Trust Services PLC
Interest rate swap counterparty	ABN AMRO Bank N.V. and JPMorgan Chase Bank, N.A.
Currency swap counterparty	Barclays Bank PLC
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+
JPMorgan Chase Bank, N.A. as interest rate swap counterparty	AA/Stable/A-1+
ABN AMRO Bank N.V. as interest rate swap counterparty	AA-/Stable/A-1+
Barclays Bank PLC as flexible drawing facility provider and currency swap counterparty	AA/Stable/A-1+

Transaction Key Features	
Expected closing date	March 22, 2007
Collateral	Portfolio of first-ranking residential mortgages secured over freehold, leasehold, or feuhold properties in the U.K.
Principal outstanding of provisional mortgage pool (Mil. £ equiv.)	787.3
Number of properties	5,559
Geographic concentration—London and southeast (%)	51.62
Property occupancy	100% buy-to-let
Weighted-average LTV ratio (%)	79.30
Average loan size balance (£)	141,624
Loan size range (£)	22,400 to 1,750,734
Weighted-average seasoning (years)	0.15
Weighted-average asset life remaining (years)	21.37
Weighted-average mortgage interest rate (%)	5.22
Redemption profile	4.51% repayment, 95.49% interest-only
Expected excess spread at closing (%)	1.30
Cash reserve	1.9%, building up to 2.4% if arrears trigger is hit
Maximum LTV ratio (%)	91.95
Principal deficiency ledger	0
Percentage of jumbo loans (> £150,000) by number of loans (%)	20.28

Transaction Summary

Standard & Poor's Ratings Services has assigned preliminary credit ratings to the £1.5 billion (equivalent) mortgage-backed floating-rate notes to be issued by Paragon Mortgages (No. 14) PLC.

The preliminary ratings were assigned on the basis of the provisional pool cut, comprising £787.3 million of residential mortgages. By the first principal determination date (Aug. 31, 2007), the pool will have increased to £1.5 billion. The final pool will feature the same composition as the provisional pool cut, and WAFF and WALS tests will be conducted to ensure that the final pool has the same credit quality as the provisional pool.

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

Further key considerations include the strong protection for the class A and B noteholders, provided by a combination of the subordinate class C notes (7.5% of the notes issued), the first-loss fund (1.9% of the notes issued, building to 2.4% of the initial note balance if loans greater than 60 days in arrears exceed 3.0%), 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 Jan. 5, 2007. 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 with the purpose of issuing the notes and purchasing the mortgage pool. The issuer 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 Ltd. is a private limited company incorporated under the laws of England, and is the originator of 36.96% of the mortgages in the portfolio, either directly or indirectly via broker intermediaries.

Mortgage Trust Ltd. is a private limited company incorporated under the laws of England and was acquired by The Paragon Group of Companies on June 30, 2003. Mortgage Trust now operates exclusively in the buy-to-let sector, and is the originator of 63.04% of the mortgages in the portfolio.

Notable Features

This is Paragon Mortgages' 15th securitization of its buy-to-let mortgages. The main structural features of this transaction closely resemble those of Paragon Mortgages (No. 13) PLC, including the issuance of the class A1 notes. These notes will be rated 'A-1+' and are intended to be "eligible securities" for purchase by money market funds under Rule 2a-7 of the U.S. Investment Company Act of 1940.

Unlike in Paragon 13 where the notes could redeem if certain conditions were met, redemption of the notes will be sequential for the life of the transaction in Paragon 14.

Paragon 14 will benefit from a margin reserve fund that injects cash into the transaction up to the interest payment date (IPD) in September 2008.

Strengths, Concerns, And Mitigating Factors

Strengths
• The borrowers are of a high quality, with no adverse credit history (e.g., no county court judgments). • The sellers and administrators have an experienced and sound understanding of the

buy-to-let market (all of the mortgages in the portfolio are buy-to-let). This experience, coupled with strong underwriting standards, has kept arrears below the industry average.

- The transaction will include an efficient payment structure for investors, which provides support to all the notes through the use of triggers when the transaction is under stress. This will be achieved by stepping up the cash reserve by an additional 50 bps, if arrears greater than 60 days exceed 3%. At the outset, the notes will amortize sequentially, but will begin to redeem pro rata subject to further conditions (see "*Mandatory redemption*"*)*.
- Paragon 14 will benefit from a margin reserve fund that injects cash into the transaction up to the IPD in September 2008. The margin reserve fund will be fully funded at closing. The cash will be held in the transaction account.

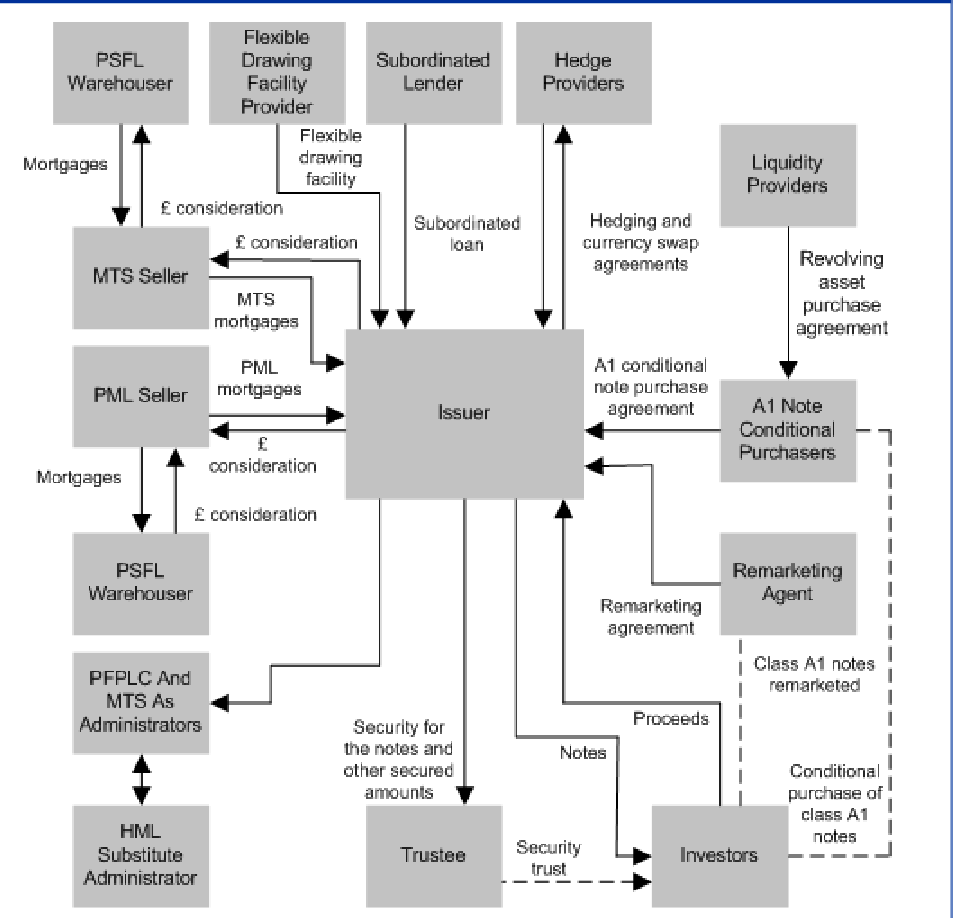
Concerns and mitigating factors

- The issuer must make mandatory further advances, and may opt to make discretionary further advances. This will be mitigated by the condition that the sum of all mandatory and discretionary further advances does not exceed a combined aggregate cumulative limit of 16% of the notes to be issued (with the exception of Mortgage Trust redraws). Further advances will be funded through principal redemption funds. If insufficient principal redemption funds are available, the issuer can, for discretionary further advances, (at the subordinate lenders' discretion) borrow further amounts under the subordinated loan.
- Flexible mortgages (accounting for 11.61% 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 will be 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.

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 package*"). The borrowers of the mortgages are individuals or limited liability companies (with guarantees from individuals) incorporated under U.K. law (see chart 1).

Chart 1: Paragon Mortgages (No. 14) PLC Structure
Transaction Structure



©Standard & Poor's 2007.

At closing, the issuer will purchase the pool of mortgages from the sellers with the funds obtained from issuing the class A1, A2, B, and C notes.

Part of the note proceeds will be used to establish a prefunding reserve. Until the first principal determination date on Aug. 31, 2007, the issuer may use the prefunding reserve to purchase further mortgages from Paragon Mortgages, subject to, among other things, Standard & Poor's being satisfied that the purchases do not adversely affect the existing ratings on the notes. Any amounts outstanding in the prefunding reserve as of the first IPD in September 2007 will be used to redeem the notes.

All of the classes of notes will be secured over all of the mortgages in the pool. Repayments to noteholders will be financed from the cash flow generated on the mortgages.

Security package

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 National Westminster Bank PLC. Additionally, the issuer's security interest in any cash investments will be secured by a floating charge ranking behind preferred creditors.

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 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.

The issuer may make discretionary further advances, subject to certain conditions including:

- Lending guidelines must be satisfied.
- If applicable, provisions of the Consumer Credit Act must be complied with.
- Discretionary further advances may not be made out of funds notified as being available for redemption of the notes between the principal determination date and the IPD.
- As a result of the discretionary further advance (and any mandatory further advance), the LTV ratio for the entire pool may not increase by more than 1% relative to the LTV ratio after using the prefunding reserve.
- Principal available funds or drawn amounts under the subordinated loan must be sufficient to fund the discretionary further advances.
- As a result of the discretionary further advance, the final maturity of the mortgage may not extend beyond two years before the legal final maturity of the notes.
- No more than 2% of the mortgages by current balance may be more than three months in arrears.
- The first-loss fund must be at its required amount.
- There must be no debit balance on the principal deficiency ledger.
- There can be no breach by the borrower of mortgage conditions.

In all cases where Paragon Mortgages and Mortgage Trust make 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.

No mandatory further advances will be made if the borrower breaches any of the mortgage conditions. The issuer will not agree to make a discretionary further advance if the sum of the discretionary and mandatory further advances is greater than 16% of the notes to be issued (excluding Mortgage Trust redraws).

Redraw risk

Of the mortgages in the provisional pool, 11.61% 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 might bring claims for damages, which may 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 validly made but cannot be funded.

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

Note Terms And Conditions

The issuer is expected to issue four classes of notes, the class A1, A2, B, and C notes. The class A1 notes and A2 notes will rank pari passu for principal and interest repayments. The class A1 notes and A2 notes will rank senior to the class B and C notes. The class B notes will rank senior to the class C notes.

For the class A1 notes, interest will be payable monthly based on one-month U.S. dollar LIBOR plus a margin annually reset on December 15, subject to a maximum equal to the sterling A2 note margin. For the class A2 notes, interest will be payable quarterly based on either three-month British pound sterling LIBOR plus the applicable margin, three-month EURIBOR plus the applicable margin, or three-month U.S. dollar LIBOR plus the applicable margin**.** For the class B and C notes, interest will be payable quarterly based on either three-month British pound sterling LIBOR plus the applicable margin or three-month EURIBOR plus the applicable margin. If not already redeemed, the margins on the class A2, B, and C notes will double from the step-up date in March 2012.

Mandatory redemption

- The notes will be subject to mandatory redemption in part on each quarterly IPD, from available funds. The class A1, A2, B, and C notes will be redeemed sequentially for the life of the transaction.

Purchase of preclosing arrears

Based on the provisional pool data, the issuer will purchase mortgages with an approximate principal balance of £1,719,652 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 maximum principal amount of mortgages in arrears by more than one month that the issuer will purchase is £10 million. The increased mortgage arrears amount will not present an additional risk to the transaction, as the quality of the portfolio must remain similar to that of the closing mortgage pool.

Optional redemption

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.

Final redemption

If not already redeemed, the class A1, A2, B, and C notes will be redeemed at the legal final maturity date in 2039.

Withholding tax

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

Protection Against Key Risks (Credit And Liquidity)

Mortgage interest rate setting

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 1.6% until March 2012 and 2.0% 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.

Subordinated loan and first-loss fund

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 1.9% 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.

The required first-loss fund amount will be stepped-up to 2.4% if the two-months in arrears balance is greater than 3.0%.

If the three-months in arrears balance is at least 7.5% of the then-current balance of all mortgages, a liquidity amount trigger event will occur. This event will be deemed to be in effect until the class A notes have been redeemed in full.

If a liquidity amount trigger has occurred, and the class A notes are still outstanding at that time, then the liquidity amount will be equal to 1.6% of the then-outstanding balance of the notes. Where a liquidity amount trigger is in effect, the first-loss fund required amount will increase to the greater of (i) the liquidity amount plus 1.0% of the initial notes balance outstanding amount, or (ii) 2.4%.

While the trigger is in effect, the liquidity amount of 1.6% will be solely applied toward the payment of interest on the notes, in the following order of priority:

- Interest on the class A notes;
- Interest on the class B notes, but only if the sum of the debit balance on the principal deficiency ledger and the interest payments on the class A and B notes from the liquidity amount do not exceed the sum of the aggregate principal outstanding on the class B and C notes (after the application of any amounts in the revenue ledger and the application of the first-loss liquidity excess amount); and
- Interest on the class C notes, but only if the sum of the debit balance on the principal deficiency ledger, and the interest payments on the class A, B, and C notes from the liquidity amount, does not exceed the sum of the aggregate principal outstanding on the class C notes after the application of any amounts in the revenue ledger and the application of the first-loss liquidity excess amount.

Subordinated loan and margin reserve fund

Under the terms of the subordinated loan agreement, the issuer will draw down £9,487,058 to fund the margin reserve fund. The margin reserve fund injects cash into the transaction on each interest payment date up to the interest payment date in September 2008. The margin reserve fund is fully funded at closing. The cash will be held in the transaction account.

Other uses of the subordinated loan

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 their 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.

Collateral Details

The provisional mortgage pool of £787.3 million comprises 5,559 loans and was drawn up on Jan. 31, 2007. The loans in the provisional portfolio were originated by Paragon Mortgages and Mortgage Trust between 1997 and January 2007, and have been administered by either Paragon Finance or Mortgage Trust Services (each a member of the Paragon Group of Companies) since origination.

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, 100% are buy-to-let mortgages.
- Of the mortgages, 4.51% are repayment mortgages and 95.49% are interest-only mortgages.
- Of the loans, 47.46% were used for house and apartment purchases and 52.54% were used for remortgaging.
- The weighted-average LTV ratio of the mortgage pool is 79.3%.
- The average outstanding mortgage balance is £141,624.
- The largest concentration of mortgages by geographic area is in southeast England (including London) at 51.62%. There are no significant concentrations in other regions.
- The weighted-average term to maturity is approximately 21.37 years.

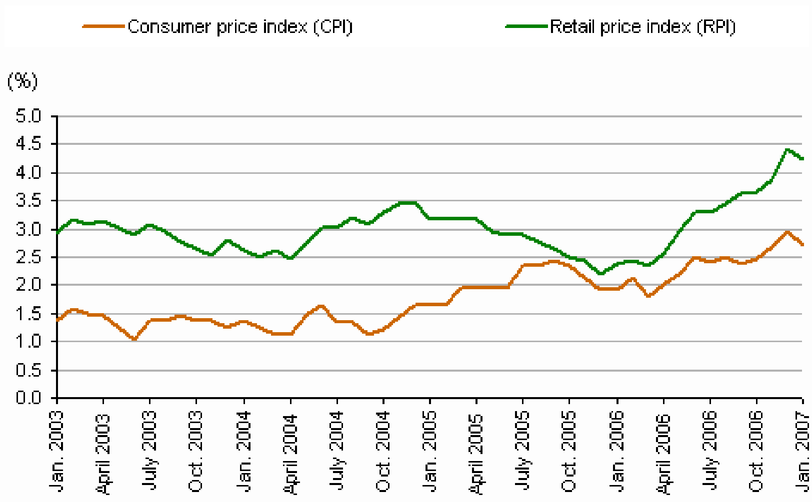
Sectoral Credit Highlights

U.K. inflation back on target by year-end

In the U.K., GDP growth improved to 2.7% in 2006, from a 13-year low of 1.9% in 2005. According to preliminary estimates, growth was 0.8% quarter-on-quarter and 3.0% year-on-year in the fourth quarter of 2006—the best performance since mid-2004.

CPI inflation, meanwhile, surged to 3% in December 2006, its highest rate since this particular series was introduced in January 1997. This triggered the third interest rate hike by the Bank of England's Monetary Policy Committee (MPC) since August 2006, to 5.25% in January 2007. The MPC's official inflation target for CPI is 2%. Even more worryingly, the RPI, which until December 2003 was used as the government's official inflation target, jumped to 4.4% that same month (see chart 2). Unlike CPI, RPI also includes rents, mortgage payments, and council taxes. It is still widely used as a reference in wage settlements, and its sharp rise may affect forthcoming pay negotiations.

Chart 2: U.K. Inflation On The Rise



Source: Office for National Statistics.

At the same time, the housing market has been slowing down only modestly. As in other economies, the effects of tighter monetary policies are being felt more gradually in the current, highly competitive, and innovative financial environment. Mortgage lending hit a record high of £10.6 billion in December 2006, although a substantial increase in mortgage arrears suggests that higher interest rates are starting to have a negative effect in the most exposed sectors of the market. House price inflation declined to about 9% in the 12 months to January 2007, compared with 10.5% a month earlier.

Against this backdrop of higher CPI inflation, a resilient housing market, and accelerating economic growth, the MPC is likely to raise interest rates one more time to 5.5%, probably as early as March. Longer term, however, we expect headline inflation to come down markedly. This is due to three factors.

First, oil prices have dropped significantly in the past six months. Second, the recent strengthening of British pound sterling is reducing the amount of inflation being "imported" into the economy. And third, the recent announcement by energy supplier British Gas that it will reduce its prices by 17% from the middle of March is most likely to be followed by its main competitors; higher utility bills have been a major factor behind the recent surge in headline inflation. By the end of this year, inflation in the U.K. should be back within the MPC's 2% target zone.

The U.K.'s future looks bright

On the real side of the U.K. economy, consumer demand should continue to pick up after a trough in the middle of the decade, due to high employment and robust gains in purchasing power. Growth in U.K. consumption, which averaged 1.9% in 2006, should reach 2.5% in 2007 and 2.7% in 2008. Corporate investment will continue to be supported by increasing capacity constraints in some sectors, generally strong corporate balance sheets, healthy returns on capital, a buoyant equity market, and still-relatively-low interest rates compared with long-term norms.

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.

The foreclosure frequencies and loss severities assumed for this transaction were determined using Standard & Poor's published residential mortgage criteria.

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	28.6	29.0
AA	19.2	22.1
A	14.4	17.0
BBB	9.7	12.3

A feature of the portfolio is the high level of different types of buy-to-let mortgages. These include professional landlords and lettings by individuals through personal or corporate loans (usually through SPEs that are guaranteed by directors). The levels of underwriting by the originator are considered to be conservative, but the characteristics of the buy-to-let market create additional risks relative to a typical prime, owner-occupied mortgage portfolio (such as reliance on tenants to make timely rental payments), notwithstanding the weighted-average LTV ratio of this portfolio. These risks are mitigated through Paragon's greater understanding of the market as a specialist lender, its conservative buy-to-let underwriting policy, and its predominance in the professional landlord sector.

The cash flows simulate the performance of this portfolio in the transaction's documented structure under certain stressed scenarios. 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

- "*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 on Sept. 21, 2004).

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.

Key Contacts	
SF Investor Hotline	(44) 20-7176-3223
Client Support Europe	(44) 20-7176-7176
Press Office Hotline	(44) 20-7176-3605 or media_europe@standardandpoors.com
Local media contact numbers	
Paris	(33) 1-4420-6657
Frankfurt	(49) 69-33-999-225
Stockholm	(46) 8-440-5914
Moscow	(7) 495-783-4017