FitchRatings

Structured Finance
RMBS
United Kingdom

Paragon Mortgages (No.27) PLC

Capital Structure

Class	Rating	Outlook	Amount (GBPm)	CE (%)	Interest Rate (%) pre-Step-up Date	Interest Rate (%) post-Step-up Date	Legal Final Maturity
A	AAAsf	Stable	648.3	16.2	SONIA + 1.10	SONIA + 1.65	April 2047
B	AAsf	Stable	41.8	10.7	SONIA + 1.50	SONIA + 2.25	April 2047
C	Asf	Stable	22.8	7.7	SONIA + 1.80	SONIA + 2.70	April 2047
D	BBBsf	Stable	22.8	4.7	SONIA + 2.10	SONIA + 3.10	April 2047
Z	NRsf	n.a.	24.7	1.5	SONIA + 3.10	SONIA + 3.10	April 2047
S	NRsf	n.a.	11.6	0.0	SONIA + 4.00	SONIA + 4.00	April 2047
SVFN	NRsf	n.a.	4.2	0.0	SONIA + 4.00	SONIA + 4.00	April 2047
Total			**776.2**				

Notes: Credit enhancement (CE) is based on a total asset pool of GBP759,666,134 plus mandatory further advances of GBP811,500 and the amortising general reserve of 1.5% of the class C and D notes and the amortising liquidity reserve for the class A and B notes. Notes are backed by the mortgage pool.

Paragon Mortgages (No.27) PLC (PM27) is the 27th transaction from the Paragon series consisting of buy-to-let (BTL) mortgages originated by Paragon Mortgages (2010) Limited and Paragon Bank plc (Paragon). The transaction is a static securitisation of recent Paragon originations with 96.4% of the pool originated in 2019 and 2020, with the rest originated between 2011 and 2016.

Key Rating Drivers

Recent Prime BTL Originations: Paragon is an experienced lender specialising in the BTL segment with a large proportion of originations to professional landlords with four or more properties. Paragon originates in line with the guidelines introduced by the Prudential Regulation Authority (PRA) and Fitch Ratings views Paragon's underwriting standards to be in line with its expectations for a prime BTL lender.

The mortgages in the portfolio have a low weighted average (WA) seasoning at six months. Both loan-to-value (LTV) and affordability ratios are in line or better than recent UK transactions.

Negative Asset Performance Outlook: We expect a generalised weakening in borrowers' ability to keep up with mortgage payments due to the economic impact of the coronavirus pandemic and the related containment measures. As a base scenario, Fitch assumes a global recession in 1H20 driven by sharp economic contractions in major economies with a rapid spike in unemployment, followed by a recovery from 3Q20 as the health crisis subsides.

Under this scenario, Fitch reviewed the rating assumptions applicable to PM27's mortgage portfolio, in particular the foreclosure frequency (FF). At 'Bsf', a multiple of 1.4x was applied to standard FF assumptions to broadly cover the peak of defaults observed after the financial crisis in the UK BTL sector plus a buffer. For higher rating levels, the expected changes are more modest as the corresponding rating assumptions are already meant to withstand more severe shocks. The multiple applied at 'AAAsf' is 1.1x. This is a variation to Fitch's criteria.

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Closing occurred on 30 April 2020. The transfer of the portfolio to the issuer occurred on 30 April 2020. The ratings assigned above are based on the portfolio information as of 20 April 2020, provided by the originators. Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other material should be reviewed prior to any purchase.

Representations, Warranties and Enforcement Mechanisms Appendix

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As a downside (sensitivity) scenario provided in the *Rating Sensitivities* section, Fitch considers a more severe and prolonged period of stress with a halting recovery beginning in 2Q21. Under this scenario, Fitch assumed a further 1.15x increase in its FF assumptions for all rating levels and a 15% haircut to its recovery rate assumptions. Under this scenario, the notes could be downgraded by up to three notches.

Interest Rate Mismatch Hedged: At close, 100% of the pool pays a fixed rate of interest (reverting to Paragon's standard variable rate (SVR) or discounted SVR), while the notes pay a SONIA-linked floating rate. The issuer entered a swap at closing to mitigate the interest rate risk arising from the fixed-rate mortgages in the pool. The swap features a defined notional balance that was derived to reflect the interest rate reset dates of the mortgage pool. There are only minor limitations on the potential switches regarding any interest rate conversions.

Fitch has modelled extensive use of the interest rate conversions to stress any excess spread in the asset portfolio and assess the impact of any over- or under-hedging due to prepayments and defaults not envisaged by the swap notional.

Impact of Payment Holidays: At closing, about 17% of the portfolio's loans were in payment holidays. Paragon grants payment holidays as requested by borrowers based on a self-certification that it is linked to the coronavirus pandemic. We expect providing borrowers struggling with mortgage payments the option to take up to three months' payment holiday to have a temporary positive impact on loan performance.

Payment holidays may ultimately delay the recognition of arrears and defaults, leading to a lag in portfolio performance related transaction triggers breaches aimed at stopping the amortisation of the general reserve fund and the liquidity reserve fund. In the short term, the transaction may face some liquidity constraints if a large proportion of borrowers opts for a payment holiday.

Fitch has tested the ability of the general and the liquidity reserves to cover senior fees, net swap payments and class A to D note interest under various interest rate scenarios and found that payment interruption risk would be mitigated for this transaction. The ratings are robust to a temporary decrease in collections while the criteria variation applied to FF assumptions is aimed at addressing increased default risk from the coronavirus situation, whether those follow a period of payment holidays or not.

Highlights

Coronavirus Impact: Fitch acknowledges the uncertainty and volatility related to the coronavirus pandemic and its impact on global markets. Fitch has evaluated and considers Paragon's business continuity plan adequate to minimise disruptions in the collection process. Assuming there is only a temporary disruption, portfolio delinquencies and losses could increase as a result of reduced income or temporary job losses.

The risk of negative rating actions will increase in a more sustained or severe scenario. The credit enhancement (CE) available to class A notes for PM27 is 16.2% compared with 15% for the class A notes of PM26 increasing the credit protection available to the senior notes.

For more information, see Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases.

Low Refinancing Risk: Many lenders have recently withdrawn mortgage products, including higher LTV offerings, resulting in substantially reducing product switching and remortgaging options for many borrowers. Loans that are due to move to higher reversionary rates will place an increased strain on affordability at the same time as a deteriorating economic backdrop.

PM27 is not exposed to refinancing risk up until 3Q21 as the loans in the pool only revert from their teaser period after that. This makes the PM27 pool less vulnerable to the risks related to the inability of borrowers to refinance their mortgage to a lower rate than other Fitch-rated transactions with a high proportion of loans exiting teaser periods by end-2020.

The WA original LTV of PM27's mortgage pool is 73.3%, with about 95% of the pool being interest-only loans as typical for UK BTL mortgage pools. A total of 19.6% of loans were originated with an LTV of 80%, which is in line with other transactions featuring primarily recent originations. The WA Fitch-calculated ICR of the pool is 97.1% with about 45.4% of the

Applicable Criteria

Global Structured Finance Rating Criteria (May 2019)

Structured Finance and Covered Bonds Counterparty Rating Criteria (January 2020)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (January 2020)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (December 2019)

Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds (Excel) (December 2019)

Structured Finance and Covered Bonds Country Risk Criteria (February 2020)

UK RMBS Rating Criteria (October 2019)

Related Research

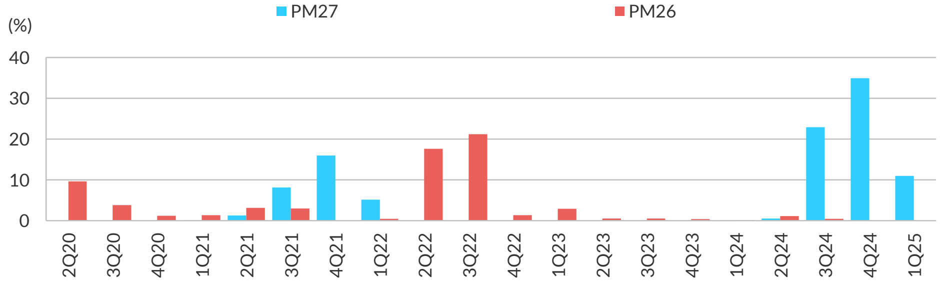
Global Economic Outlook: Crisis Update Late April 2020 - Coronavirus Recession Unparalleled (April 2020)

Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases – Update (April 2020)

UK Mortgage Market Index: March 2020 – the Calm Before the Storm (April 2020) pool in classes 8 to 10, which is better than the affordability distribution in comparable BTL pools.

Reversion Profile

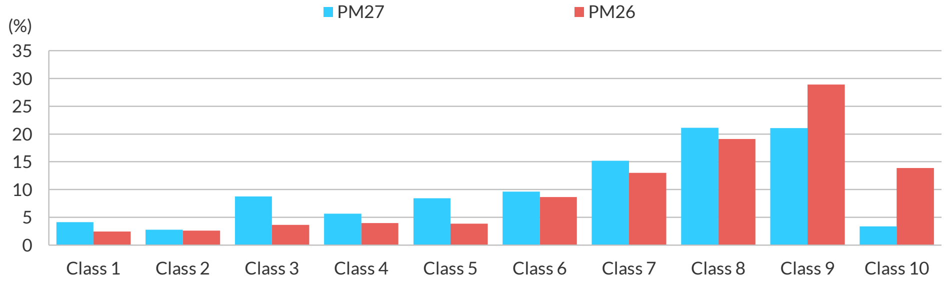
% Cbal



Source: Fitch Ratings, Pool tape

ICR Distribution

% Cbal



Source: Fitch Ratings, Pool tape

Increased Borrower Affordability: The majority of the pool contains loans advanced with an initial fixed period reverting to Paragon's discounted SVR defined at 75bp below the standard Paragon SVR. Additionally, the originator has confirmed to Fitch that Paragon's SVR will be reduced to 4.95% from 5.6% from 1 May 2020. This reflects the recent Bank of England base rate reduction as part of the measures taken to alleviate the economic disruptions due to the coronavirus pandemic.

Fitch's interest coverage ratio (ICR) calculation assesses the post-reversion interest payments using the updated Paragon's SVR. As a result about 60% (about 75% for PM26) of the pool fall into higher Fitch's classes 7-10 ICR buckets and thus attracts lower base FFs.

No Libor Exposure: The transaction has no asset, liability or hedge exposure to Libor. The assets pay a fixed rate (reverting to SVR or discounted SVR), while the notes and swap pay compounded daily SONIA.

Libor Exposure

Assets	Rated notes	Hedges
Fixed-rate loans reverting to SVR.	No (indexed to daily compounded SONIA).	No (swap hedges fixed-rate assets with SONIA liabilities).

Source: Fitch Ratings, Paragon

Minimal Credit Impact from ESG: The highest level of ESG credit relevance is a score of '3', meaning that ESG issues are credit neutral or have only a minimal credit impact on the transaction, either due to their nature or the way in which they are being managed. See ESG Navigator in *Appendix 2*.

Key Transaction Parties

Key Transaction Parties

Role	Name	Fitch Rating
Issuer	Paragon Mortgages (No.27) PLC	Not rated
Originator/seller	Paragon Mortgages (2010) Limited, Paragon Bank PLC	BBB/Negative/F3 (Paragon Banking Group PLC)
Administrator/servicer	Paragon Mortgages (2010) Limited, Paragon Bank PLC	BBB/Negative/F3 (Paragon Banking Group PLC)
Account bank	bank, N.A., London Branch	A+/Negative/F1
Collection account banks	Barclays Bank plc, National Westminster Bank Plc	A+/RWN/F1, A+/Negative/F1
Principal paying agent	Citibank, N.A., London Branch	A+/Negative/F1
Swap provider	Lloyds Bank Corporate Markets Public Limited Company	A+/Negative/F1
Arrangers	Lloyds Bank Corporate Markets Public Limited Company, Merrill Lynch International	A+/Negative/F1 AA-/Stable/F1+

Source: Fitch Ratings, PM 27

Transaction Comparison

A comparison of other recently Fitch-rated UK RMBS transactions containing BTL mortgage loans originated by other specialist BTL bank lenders is shown below.

Transaction Comparison

	PM27	PM26	Canterbury Finance No.2 PLC	PMF 2020-1B	PMF 2019-1B
Closing date	April 2020	June 2019	March 2020	January 2020	May 2019
Total issuance (GBPm)	776.2	638.1	1,078.1	388.9	751.9
Originator	Paragon	Paragon	OSB	CCFS	CCFS
WAFF (%)					
AAAsf	25.0	20.4	34.1	24.0	22.6
AAsf	20.1	16.5	27.4	19.2	18.3
Asf	15.5	12.2	20.7	14.5	13.5
BBBsf	10.8	8.2	14.0	9.8	9.1
BBsf	8.2	5.0	10.1	7.1	5.5
Bsf	5.1	3.3	5.6	3.9	3.7
WARR (%)					
AAAsf	41.0	43.8	39.9	43.2	41.7
AAsf	46.3	48.7	45.0	48.8	46.4
Asf	51.7	53.5	50.2	54.4	51.0
BBBsf	57.0	58.4	55.3	60.0	55.7
BBsf	60.4	63.1	58.5	63.4	60.3
Bsf	63.7	67.9	61.8	66.9	65.0
Portfolio					
Collateral balance (GBPm)	759.7[1]	618.1	1,036.6	375.8	733.7
Number of borrowers	2,808	3,187	3,364	1,883	4,626
Average current balance (GBP)	270,536	193,958	308,143	199,567	158,954
Loan-to-value (%)					
WA sLTV	98.4	100.9	101.1	95.5	107.9
WA OLTV	73.3	71.5	74.1	71.2	72.7

Transaction Comparison (Cont.)

	PM27	PM26	Canterbury 2	PMF 2020-1B	PMF 2019-1B
WA CLTV	73.2	70.8	74.0	71.0	72.6
OLTV >=80%	19.6	6.8	18.8	11.5	17.7
Borrower characteristics (%)					
CCJs	0.0	0.0	0.0	0.0	0.0
BO/IVA	0.0	0.0	0.0	0.0	0.0
<90 arrears	0.0	0.3	0.0	0.0	0.0
90+ arrears	0.0	0.0	0.0	0.0	0.0
WA ICR	97.1	89.5	83.1	96.1	94.6
Mortgage characteristics (%)					
Buy-to-let (%)	100.0	100.0	100.0	100.0	100.0
Interest-only loans (%)		92.4	96.5	90.2	91.0
WA stabilised margin (%)		4.7	6.1	5.0	4.7

Notes: Pool statistics are calculated by Fitch and may differ from figures reported in the offering circular, and are based on a pool cut-off date April 2020. The WAFF's and WARR's for Paragon 27, Canterbury Finance No.2 PLC and PMF 2020-1B PLC have been calculated applying the updated assumptions described in the *UK RMBS Rating Criteria*, whereas the remaining transactions shown above were analysed under the previous criteria.
[1]This is excluding mandatory further advances of GBP 811,500.
Source: Fitch Ratings, Paragon, CCFS, OSB

Asset Analysis

UK BTL Sector

Paragon is a specialist lender that focuses on the BTL market. Paragon gained a banking licence in 2014 and operates through the Paragon Bank brand. Paragon Banking Group PLC is rated 'BBB' with a Negative Outlook. Paragon restarted its mortgage origination in 2010, after ceasing new origination during the crisis, with an updated lending policy and strategy.

Paragon is a deposit-taking institution authorised by the PRA and regulated by the Financial Conduct Authority (FCA) and the PRA. Sourcing of BTL borrowers is predominantly carried out through intermediaries.

This transaction is backed exclusively by BTL mortgage loans originated by Paragon. Fitch has assessed the pool using its UK BTL assumptions.

Originator Adjustment

A lender adjustment of 1.0 was applied to Fitch's base FFs. This assumes that the origination and underwriting practices are in line with those of a standard traditional UK mortgage lender with market expertise, financial stability and relevant management experience.

As part of the analysis, the agency performs an operational review of the originator to assess the origination, underwriting, and servicing capabilities of the seller (see *Appendix 1*). As a result of this review, if Fitch believes that the origination and underwriting procedures are either above or below market standards, an adjustment to the base default probabilities of the whole portfolio can be warranted.

Fitch re-assessed Paragon's operational capacity in April 2020, after a visit to its head office in January 2019 to focus on potential constraints, servicing abilities and mortgage portfolio administration policies, including business continuity plans. Paragon has implemented its business continuity plan due to the coronavirus pandemic. A significant proportion of staff is working remotely and all business functions are operating satisfactorily.

Paragon is an experienced lender specialising in the BTL segment and sourcing its applications primarily though the intermediary market. A large proportion of its originations are to professional landlords with four or more properties, with the average borrower having a portfolio of about 10. This share has increased since the introduction of new BTL lending requirements by the PRA in September 2017. Paragon has fully adopted the new regulations.

Fitch considers Paragon's underwriting processes and systems to be well set up to deal with the more complex underwriting of professional landlords with larger portfolios. Fitch deems the lending criteria, as outlined in *Appendix 1*, to be in line with the agency's view of a prime BTL lender.

Lender Strengths and Weaknesses

Paragon Mortgages Limited/Paragon Banking Group PLC
Strengths 1. Manual underwriting of all cases and processes and systems in place to deal with professional landlords. 2. Strong valuation process and oversight of valuations which includes the use of Paragon's own surveyors. 3. Full alignment to the PRA guidelines. 4. Robust receiver of rent process.
Weaknesses 1. A focus on professional landlords, which involves more complex underwriting and has the potential for higher concentration risk.
Source: Fitch Ratings

Receiver of Rent

Fitch believes the risk of exposure to a single borrower is largely mitigated by Paragon's reliance on the receiver of rent (ROR) process. Generally, if a loan is two or more months in arrears, Paragon will appoint an ROR for the entire portfolio of the borrower, which does not require court approval. Paragon uses a wholly owned subsidiary, Redbrick Survey and Valuation Limited, for the ROR process.

Paragon sends a surveyor with a property agent to the property and informs the tenant that they have to transfer their rent to the ROR, who forwards it to Paragon, instead of paying the landlord. No monies from that point are allowed to be passed on to the borrower. Any payments received in excess of monthly mortgage payments and associated fees are used to pay down the loan. Where the property is vacant, a decision is made to rent or sell the property and a locksmith will change the locks.

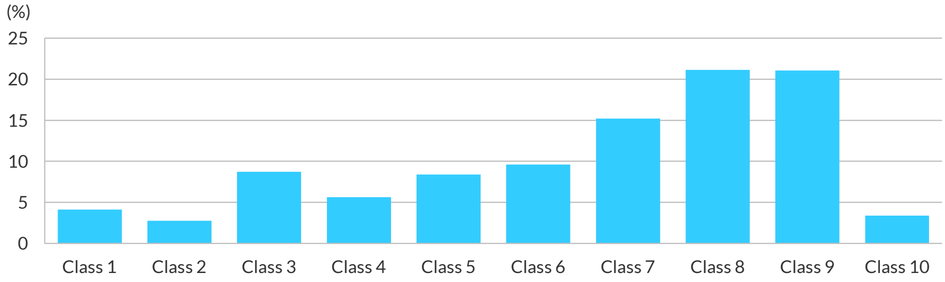
Even if a borrower becomes current at a later date, Paragon is not immediately obliged to release the property back to the borrower, which could effectively force a borrower to redeem all the mortgages with Paragon. Instead, Paragon will fully re-underwrite and will only release control of the property back to the borrower if it deems the risk to be acceptable.

Affordability

The pool is skewed towards Fitch's top ICR classes. Fitch believes this is mainly due to the weaker affordability assessment for borrowers on a five-year fixed-rate product, which represents about 65% of the pool. Paragon assesses affordability at the higher of the pay-rate or 4% for such loans, which is consistent with PRA regulations. About 60% of the pool is concentrated in classes 7 and above, with about a quarter in the pool in classes 9 and 10.

This pool has a WA ICR calculated by Fitch of 97.1%, which is higher than the observed in other asset pools from the Paragon series (89.5% for PM26, 96.6% for PM25 and 84.6% for PM24). At close, 100% of the pool pays a fixed rate of interest, subsequently reverting to Paragon's SVR (about 30% of the pool current balance) or discounted SVR (70% of the pool current balance), which is 75bp lower than the Paragon's SVR. As a result the Fitch calculated WA stressed interest rate used as an input to the ICR calculations is lower than in other Paragon pools, signaling stronger affordability position of the borrowers in the pool.

ICR Distribution
% Cbal

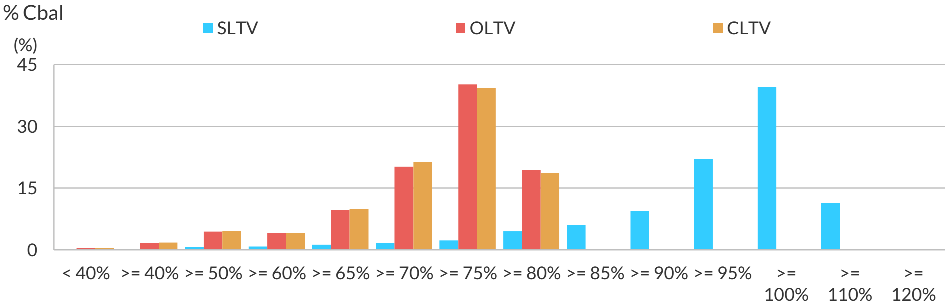


Source: Fitch Ratings, Pool tape

Loan-to-Value Ratios

The WA original LTV of the mortgage pool is 73.3%, in line with peer transactions rated by Fitch. A total of 19.4% of loans were originated with an LTV of 80%, which is in line with other transactions featuring primarily recent originations. Due to the limited seasoning of this pool, there has been no amortisation and the current LTV at 73.2% is higher than previous Paragon securitisations featuring more seasoned assets, although it is in line with other Fitch-rated transactions' pools containing predominantly recent originations.

LTV Distribution
% Cbal



Source: Fitch Ratings, Pool tape

Borrower Profile

Self-Employed Borrowers

Self-employed borrowers form 68.9% of the current balance in the pool. These are typically professional landlords who rely solely on rental income for their mortgage repayments. Given the demonstrated ability of professional landlords to manage a property (based on the previous performance of Paragon transactions) no adjustment was made for borrowers designated as self-employed in this pool in line with Fitch's criteria.

Limited Companies

About 60% of the pool comprises limited company borrowers. Companies must be non-trading and formed solely for purpose of investing in BTL properties. Recourse to the borrower is achieved as Paragon requires personal guarantees.

Adverse Credit

The pool does not contain any borrowers with past County Court Judgements (CCJs) and/or IVA/bankruptcy in line with Paragon's origination policy.

Loan Profile

Interest-Only Loans

Of the loans in the pool, 94.6% are interest-only, which is typically the loan type favoured by BTL borrowers. Interest-only loans can be construed to be riskier than amortising loans because of the greater risk that the borrower may be unable to repay the debt in full at maturity (i.e. balloon payment risk). However, the interest-only FF adjustment will ordinarily not apply to BTL products as the BTL market is almost entirely interest-only, which is factored into the BTL sector-specific assumptions.

Repayment Type

	Interest only	Repayment
Repayment type (%)	94.6	5.4

Source: Fitch Ratings, Paragon

Interest Rate Types

The pool comprises loans that pay a fixed rate before switching to Paragon's SVR or discounted SVR.

The fixed-rate loans are hedged through an interest rate swap. Under this arrangement the issuer pays a fixed coupon and receives daily compounded SONIA from the swap counterparty. The timing difference between the fixing date for the variable-rate mortgages and the notes is unhedged.

Further Advances

Up to 16% of the initial pool can be added at a later stage to the pool, alongside the mandatory further advances (MFAs, related to any advances retained pending on the completion of construction) of GBP811,500 to existing borrowers, which are prefunded via a separate reserve at closing. Fitch did not make any adjustment based on these two types of further advances as their impact is considered limited.

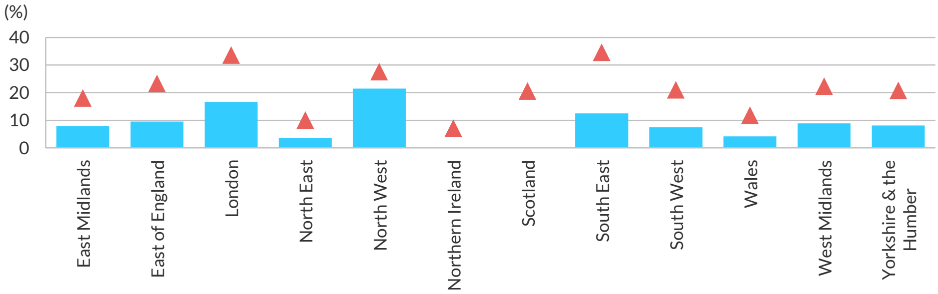
Property Type

Single-property houses and flats comprise about 40.5% and 32% of the pool, respectively. Of the remainder, about 23% are houses in multiple occupation and 3% are multi-unit blocks (all classified as multifamily). This is higher proportion of multifamily houses than the previous PM26 transaction (about 12%), but lower than the observed percentages in other specialised BTL mortgage securitisations rated by Fitch. Flats and multifamily properties attract a higher foreclosure sale adjustment than houses under Fitch's criteria. About 5.5% of the pool is subject to Fitch's illiquid property adjustment.

Geographical Distribution

There is no geographical concentration as defined by the *UK RMBS Rating Criteria*. About 30% of the pool is located in London and South East England.

Regional Distribution
By property count



Source: Fitch Ratings, Pool tape

Concentration Risk

Potential concentration risk primarily stems from Paragon's business model targeting professional landlords who typically have several BTL loans with Paragon. As a result, there are a fairly large proportion of borrowers in the pool with more than one property. The maximum number of properties per borrower is 25 (76 for PM26), although the average is only 1.5 (0.2 for PM26), as per the final pool. Some of those cases are loans secured on multiple leaseholds within the same building where the borrower could be the ultimate freehold owner, which would increase the concentration risk relating to individual properties and regional areas.

Those cases could also be more challenging with respect to marketability in a repossession or ROR situation.

Cross-Collateralisation

Borrowers could have BTL loans with Paragon outside the securitised portfolio, which would be originated under an all monies charge. Paragon has mitigated the potential for enforcement of a loan within the securitisation based on a default on a loan outside the securitised portfolio by restricting the rights to cross-collateralisation.

Fitch analysed the exposure to the risks outlined above, as well as the aggregate loan balance of any single borrower, and determined that the concentration risk was not excessive.

ResiGlobal Model Output

The following table illustrates the asset analysis results across different rating scenarios. Fitch has used these WAFF and WA recovery rate (WARR) levels when modelling the transaction cash-flows.

The asset levels below include a variation to Fitch's criteria to address an extended generalised weakening in borrowers' ability to keep up with mortgage payments due to the economic impact of the coronavirus pandemic and the related containment measures. As a base scenario, Fitch assumes a global recession in 1H20 driven by sharp economic contractions in major economies with a rapid spike in unemployment, followed by a recovery that begins in 3Q20 as the health crisis subsides.

Under this scenario, Fitch has reviewed the rating assumptions applicable to the mortgage portfolio of PM27, in particular the FF). At 'Bsf', a multiple of 1.4x was applied to standard FF assumptions to broadly cover the peak of defaults observed after the global financial crisis in the UK BTL sector plus an additional buffer. For higher rating levels, the expected changes are more modest as the corresponding rating assumptions are already meant to withstand more severe shocks. The multiple applied at 'AAAsf' is of 1.1x, see *Criteria Variation* section for the applied multiples in the other rating categories.

ResiGlobal Model Output

Rating level	WAFF (%)	WARR (%)
AAAsf	25.0	41.0
AAsf	20.1	46.3
Asf	15.5	51.7
BBBsf	10.8	57.0
BBsf	8.2	60.4
Bsf	5.1	63.7

Source: Fitch Ratings

Cash Flow Analysis

The notes will amortise sequentially between themselves. The transaction allows for conversions, including product switches and conversions to interest-only from repayment or vice versa as part of an arrears management programme. New fixed-rate loans, either as a result of a product switch or addition as further advance, will be subsequently hedged to mitigate the interest rate risk. The subsequent hedging will be based on a 0% CPR swap notional where the issuer will pay a fixed rate of interest and receive daily compounded SONIA.

As the swap notional is neither reflective of any prepayments nor any defaults, there is a high probability that the transaction will become over hedged. This is credit negative for the transaction, and has an impact in Fitch's cash flow modelling, especially in stable and decreasing interest rate scenarios, where the issuer pays a fixed swap rate and receives a low

SONIA rate or needs to pay for any potential SONIA. Fitch's approach to the hedging mechanics is described further under the section *Hedging and Interest Rate Risk*.

Available Funds (Simplified)

Available revenue receipts	Available principal receipts
All interest collected or recovered from the portfolio	All principal collections (including recoveries and repurchase proceeds)
Yield on eligible investments and on the issuer's accounts	Credits from the PDL
Amounts received under the swap agreement	GRF released amounts after covering all items in the revenue waterfall
General reserve fund (GRF) and liquidity reserve fund excess amounts	Releases of the prefunding ledger
Mortgage margin reserve fund (MRF) and Conversion MRF release amounts	
Principal to meet senior expenses deficit	

Source: Fitch Ratings, PM27

Pre-Enforcement Priority of Payments (Simplified)

	Revenue priority of payments	Principal priority of payments
1	Senior fees	Principal applied to meet senior expenses deficit [a]
2	Hedging payments	Mandatory further advances
3	Class A interest	Discretionary further advances
4	Class A PDL	Class A principal
5	Class B interest	Class B principal
6	Liquidity reserve fund up to required amount	Class C principal
7	Class B PDL	Class D principal
8	Class C interest	Class Z principal
9	Class C PDL	Class S principal
10	Class D interest	Class SVFN principal
11	Class D PDL	
12	General reserve fund up to required amount	
13	Class Z PDL	
14	Prior to step-up, mortgage margin reserve fund and conversion margin reserve fund discretionary amount	
15	Third-party expenses	
16	Subordinated hedging payments	
17	Following the step-up date or final redemption date, applied as principal	
18	Class Z interest	
19	Class S interest and principal	
20	Class SVFN interest and principal	

[a] Subjected to PDL conditions, please refer to the *Principal to Pay Interest* section.
Source: Fitch Ratings, PM27

Step-Up in Margin on Notes

From the interest payment date (IPD) in October 2025, the issuer has the option to call all outstanding notes. In the event that the issuer does not exercise this option, the margin on the class A to D notes would step up. Fitch has assumed in its cash flow analysis that the call option is not exercised and the margins on the notes step up.

Step-Up Margins

Class	Initial margin (%)	Step-up margin (%)
Class A	1.10	1.65
Class B	1.50	2.25
Class C	1.80	2.70
Class D	2.10	3.10

Source: Fitch Ratings, PM27

Events of Default

Events of default under the terms and conditions are:

- non-payment by the issuer of principal in respect of the notes within seven days following the due date;
- non-payment by the issuer of any interest amount on the most senior class within 15 days following the due date;
- breach of contractual obligations by the issuer under the transaction documents, which is incapable of remedy or which is, if capable of remedy, not remedied within 30 days and which is materially prejudicial to the interests of the holders of the most senior class;
- an insolvency event occurs in relation to the issuer; or
- it is or will become unlawful for the issuer to perform or comply with its obligations.

Optional Redemption

All the notes outstanding can be redeemed in full as follows:

- mandatory redemption in whole on the legal maturity date;
- mandatory redemption in whole pursuant to a portfolio purchase;
- optional redemption in whole exercisable by the issuer where the principal amount outstanding of all the notes is equal to or less than 10% of the aggregate principal amount outstanding of the notes as at the closing date;
- optional redemption in whole exercisable by the issuer on or after the step-up date; and
- optional redemption in whole exercisable by the issuer for tax reasons.

Credit Enhancement

Subordination

CE is provided by the notes subordinate to each respective class. For the class A notes for example, CE from subordination is 14.75% and stems from losses being absorbed first by the class B to Z notes.

General Reserve Fund

The structure benefits from a general reserve fund (GRF), which is funded at 1.5% of the class C and D notes. The GRF is available to cover interest shortfalls only on the rated notes and senior expenses. The GRF has a target amount of 1.5% of the outstanding class C and D notes, but will stop amortising if there is a breach of any of the required amount triggers.

Liquidity Reserve Fund

A fully funded liquidity reserve fund (LRF) was established at close to 1.5% of the initial balance of the class A and B notes. The LRF can amortise with a target amount of 1.5% of the class A and B note balance, but will stop amortising if there is a breach of any of the required amount triggers. The amortisation is not subject to a floor. The LRF is only available to cover senior expenses and interest shortfalls on the class A and B notes.

Required Amount Triggers

Both the GRF and LRF will stop amortising if there is a breach of any of the required amount triggers. The triggers cover the occurrence of the following:

- On any principal determination date (PDD), the current balance of mortgages three months plus in arrears is more than 3.0%.
- On any PDD, the aggregate amount debited to the principal deficiency ledger (PDL) in respect of property sales shortfall since closing exceeds 1.0% of the initial principal balance of the class A to Z notes.

The triggers to stop the amortisation of the GRF and LRF are not curable.

Mortgage Margin Reserve Fund

A mortgage margin reserve fund was established at closing and is used to cover for any shortfall between the WA interest rate charged and daily compounded SONIA plus 3.0% as calculated by the administrator and referenced to the mortgage margin reserve fund (MRF) and thereafter funded discretionally until the step-up date. At closing, the mortgage MRF is expected to be zero. The required amount on any subsequent IPDs will be the sum of all monthly mortgage margin requirements plus additional amounts which the administrator determines sufficient for the above condition to be met.

The monthly mortgage margin requirement is calculated to capture the shortfall between the WA charging interest rate and daily compounded SONIA plus 3.0% for all mortgages purchased at closing and subsequent further advances taking into account any hedging for fixed-rate loans.

The monthly mortgage margin requirement is floored at zero. Fitch did not give any credit to this margin account as defaults or interest rate switches can lead to a WA margin below daily compounded SONIA + 3.0% as in every period there may not be sufficient funding for this reserve via the waterfall. The sum of the monthly mortgage margin reserve requirements will be released to the revenue waterfall supplementing the revenue generated from mortgage interest.

Conversion Margin Reserve Fund

Similar to the mortgage MRF above, the transaction benefits from a conversion margin reserve fund. If a borrower product switches to a fixed-rate product, the required amount will be equal to the reduction in the annual interest rate as a result of the conversion for the time period of the conversion.

A conversion margin discretionary fund was established at close from the proceeds of the issuance of the class S notes at close, which can be used to top up the conversion margin reserve fund to its required amount, and thereafter funded discretionally up to its required amount. Any release amounts from the conversion margin reserve fund will be credited to available revenue funds. Without sufficient funding of this reserve, no product switches are allowed to take place.

Further Advances and the Further Advance Pre-Funding Reserve

Further advances in the mortgage pool take the form of either MFAs or discretionary further advances. Mandatory further advances of GBP811,500 will enter the pool, which are covered by the amounts standing to the credit of the further advance pre-funding reserve in the first instance. MFAs are required to be made to borrowers for advancing funds retained pending completion of construction or refurbishment. An MFA pre-funding reserve, fully funded at closing through the proceeds of non-collateralised notes, will be established to fund any mandatory further advances on any further sale date prior to the step-up date.

At its discretion, Paragon may decide to make a discretionary further advance subject to certain conditions including:

- there is no PDL balance on the preceding IPD;
- the general reserve is at its required amount;

- the discretionary further advance must be secured on the relevant property owned by the borrower;
- the current balance of mortgages that are more than three-months plus in arrears is less than 2%;
- the borrower is not in breach of the mortgage conditions;
- the CLTV did not exceed 77% on the immediately preceding principal determination date;
- the current balance of the 20 largest borrowers did not exceed GBP51 million on the last principal determination date; and

The cumulative amount of mandatory and discretionary further advances cannot exceed 16% of the initial principal amount of the notes.

Principal to Pay Interest

Principal funds can be used to cover senior expenses and interest payments on the class A and B notes, to the extent revenue (including the GRF and LRF) is insufficient to pay these items. After the use of available revenue funds, the GRF and the LRF, principal can be used to pay senior expenses including interest on the class A and the class B notes. Principal cannot be used to pay interest on the class B notes if the debit balance on the class B PDL exceeds 50% of the outstanding balance of the class B notes.

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. Excess spread is eroded by delinquencies, payment holidays granted to borrowers 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 tenors), then there is further compression of excess spread. However, in this pool, the margins are similar across all loans, which mitigates this specific risk.

Notes Amortisation

The notes are amortising in a strictly sequential manner without any potential pro rata amortisation.

Hedging and Interest Rate Risk

The notes in the transaction are linked to SONIA. Therefore, an interest rate risk arises from the fixed paying assets.

The pool consists entirely of fixed-rate loans, which revert to Paragon's SVR – 30% of the loans revert to Paragon's SVR, while the other 70% revert to Paragon's discounted SVR (75bp lower than the standard one). The WA interest charged in the pool tape is 3.6% as at the cut-off date. The fixed-rate loans have a WA time to reversion close to four years with the longest fixed-rate period being five years. Product switches can take place solely when the WA life of fixed-rate loans multiplied by the share of fixed-rate loan is below 5.25.

The basis risk between the SVR loans and daily compounded SONIA remains unhedged, which Fitch has taken into account in its cash flow modelling. In the stable and decreasing interest rate scenarios, Fitch applied a 50bp cut in the margin over the daily compounded SONIA. In the rising interest rate scenario, Fitch assumes an SVR margin of 2%-3% based on a comparison of the lender's SVR against peer lenders. Paragon's SVR is at the middle of the peer average, so a 2.5% margin over the daily compounded SONIA was applied.

There is an interest rate swap in place to hedge the interest rate risk in the transaction, with a fixed swap notional based on a 0% CPR schedule for the fixed-rate loans. Under the swap agreement, the issuer pays a fixed rate to the swap counterparty and receives compounded SONIA. Further swaps will be added with a minimum denomination of GBP10 million in case mortgages switch to fixed rates, while in cases of defaults and prepayments of fixed-rate mortgages, the swap notional might be partly cancelled in case sufficient revenue funds are available.

Additional Fixed-Rate Loans

Additional fixed-rate loans added to the transaction, through product switches or further advances will be hedged subsequently by the issuer through entering into new swap agreements. Under the new swap agreements, the issuer pays a fixed rate to the swap counterparty and receives daily-compounded SONIA based on a 0% CPR notional schedule of the added fixed-rate loans. The issuer is required to enter into new swap agreements within 30 days of the inclusion of additional fixed-rate loans.

Fitch has analysed the product switching and hedging within its cash flow analysis.

Additional Fixed-Rate Loans Modelling Approach

Since the swap schedule for the initial swap and every subsequent swap agreements entered into by the issuer will be based on 0% CPR profiles there is a risk that the issuer will be over hedged if the new fixed-rate loans either default or prepay. An over-hedged position is detrimental for the transaction in Fitch's stable and decreasing interest rate scenarios.

The risk resulting from the over-hedged position is primarily mitigated through the following conditions, limiting the addition of new fixed-rate loans:

- the product switches (both potentially increasing the share of fixed-rate loans) can only happen up to the step-up date;
- a condition of adding new fixed-rate loans, either through additional loans or product switches, is that the maximum over-hedged position is limited to GBP10 million;
- the addition of fixed-rate loans will not result in the WA time to reversion, multiplied by the share of fixed-rate loans, exceeding 5.25 years; and
- the WA portfolio swap rate cannot exceed 4.0% after entering into new swap agreements to hedge additional fixed-rate loans included in the pool.

Moreover, prepayments on fixed-rate loans are not economical for borrowers as those incur prepayment penalty fees. For a full list of conditions associated with the addition of new fixed-rate loans through additional loans and product switches, please see the *Product Switches/Additional Loan* section under *Transaction and Legal Structure*.

Based on the conditions regarding additional loans, product switches and swap notional determination, Fitch assumed an additional swap is entered at on specified dates before the step-up date when extensive loan reversions are observed in the pool. Fitch assumed that the issuer may not have enough funds to cancel any swap notional not needed based on defaults and prepayments.

The swap rate assumed for the hedging of new fixed-rate mortgages was assumed to be 4.0% in rising interest rate stresses in line with the transaction documentation and equal to the issuer pays fixed rate in stable and decreasing interest rate scenarios. Fitch assumed that all of the loans, irrespective of the scenarios above, revert to Paragon's SVR.

Scenario Testing

The capital structure has been stressed in Fitch's rating analysis under certain scenarios, including high and low CPR scenarios, increasing, stable and decreasing interest rate scenarios, and front-, evenly and back-loaded default curve scenarios. Fitch adjusts its scenario assumptions to take account of all the relevant features of each transaction structure.

Expected Rating Sensitivity

This section provides insight into the model-implied sensitivities the transaction faces when one assumption is modified, while holding others equal. The modelling process uses the modification of these variables to reflect asset performance in up and down environments. The results below should only be considered as one potential outcome, as the transaction is exposed to multiple dynamic risk factors. It should not be used as an indicator of possible future performance. The model implied sensitivities in an up scenario do not consider any Portfolio Loss Floor, but assume that any applicable rating cap remains in place.

Downgrade Sensitivity

Downgrade Rating Sensitivity to Coronavirus-Related Stresses

Due to the coronavirus pandemic, the broader global economy remains under stress, with surging unemployment and pressure on businesses stemming from social distancing guidelines. Recent government measures related to the coronavirus pandemic introduced a suspension on tenant evictions for three months and mortgage payment holidays for BTL landlords, also for up to three months. Fitch acknowledges the uncertainty of the path of coronavirus-related containment measures and has therefore considered more severe economic scenarios.

As outlined in Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases, Fitch considers a more severe downside coronavirus scenario for sensitivity purposes whereby a more severe and prolonged period of stress is assumed with a halting recovery from 2Q21. Under this scenario, Fitch assumed a 15% WAFF increase and a 15% decrease in WARR. The results indicate a one- to two-notch adverse rating impact to the notes.

Rating Sensitivity to Coronavirus Relates Stresses

	Class A	Class B	Class C	Class D
Original Rating	AAAsf	AAsf	Asf	BBBsf
15% increase in WAFF; 15% decrease in WARR	AA+sf	A+sf	BBB+sf	BB+sf

Source: Fitch Ratings

Fitch also tested the impact of a significant reduction in collections and prepayment levels, which result in placing immediate reliance on the transaction's GRF to cover costs and interest payments. The results indicate no adverse rating impact to the notes.

Downgrade Rating Sensitivity to Default and Recovery Rates

The transactions performance may be affected by changes in market conditions and economic environment. Weakening asset performance is strongly correlated to increasing levels of delinquencies and defaults that could reduce CE available to the notes.

Additionally, unanticipated declines in recoveries could also result in lower net proceeds, which may make certain note ratings susceptible to potential negative rating actions depending on the extent of the decline in recoveries. Fitch conducts sensitivity analyses by stressing both a transaction's base -case FF and RR assumptions, and examining the rating implications on all classes of issued notes.

Rating Sensitivity to WAFF and WARR

	Class A	Class B	Class C	Class D
Original Rating	AAAsf	AAsf	Asf	BBBsf
15% increase in WAFF	AA+sf	A+sf	A-sf	BBB-sf
30% increase in WAFF	AA+sf	A+sf	A-sf	BB+sf
15% increase in WAFF; 15% decrease in WARR	AA+sf	A+sf	BBB+sf	BB+sf
30% increase in WAFF; 15% decrease in WARR	AAsf	Asf	BBB+sf	BB+sf
30% increase in WAFF; 30% decrease in WARR	AA-sf	A-sf	BBBsf	BBsf

Source: Fitch Ratings

Upgrade Rating Sensitivity to Default and Recovery Rates

Stable to improved asset performance driven by stable delinquencies and defaults would lead to increasing CE levels and consideration for potential upgrades. Fitch tested an additional rating sensitivity scenario by applying a decrease in the FF of 15% and an increase in the RR of 15%.

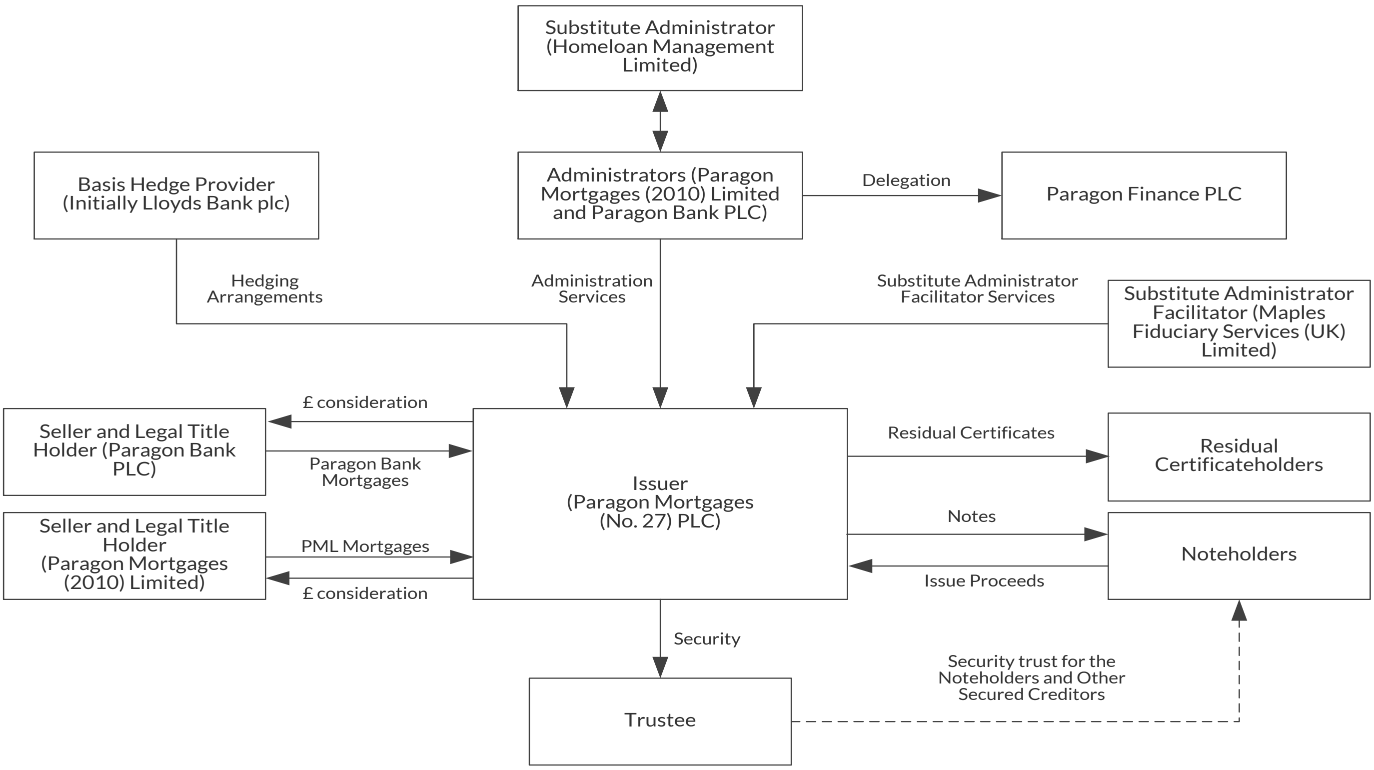
Rating Sensitivity to WAFF and WARR

	Class A	Class B	Class C	Class D
Original Rating	AAAsf	AAsf	Asf	BBBsf
15% decrease in WAFF; 15% increase in WARR	AAAsf	AA+sf	AA-sf	A-sf

Source: Fitch Ratings

Transaction Structure

Structure Diagram



Source: Fitch Ratings, Paragon

Legal Framework

On the closing date, the seller assigned the rights, title and interest in and to the mortgages to the issuer (a public company incorporated under the laws of England and Wales). There is no recourse to the seller (except with respect to loans sold in breach of warranty) so that the transfer to the issuer is treated as a true sale.

At closing, the issuer entered into a deed of charge, creating security over the collateral in favour of the trustee as security for (among other amounts) all payments under the notes. The security includes first fixed and floating charges in favour of the trustee on all the issuer's rights, claims, title, benefit, security and interest in and to the underlying collateral. The legal title to the loans will only be vested to the issuer once certain perfection events occur under the terms of the mortgage sale agreement. These include the service of an enforcement notice, the trustee determining that the charged property or any part thereof is in jeopardy (including due to the possible insolvency of the legal title holder), certain insolvency events of the legal title holder, or the legal title holder becoming obliged to provide notice of assignment of the loan by order of court, by law or any relevant regulatory authority.

Representation and Warranties

The mortgage sale agreement contains representations and warranties (R&Ws) given by the seller in relation to the mortgage pool. All of the relevant representations and warranties described in Fitch's *Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions* are present in the mortgage sale agreement. A more detailed breakdown of the R&Ws can be found in the related *Appendix*, at www.fitchratings.com.

Conversion of Mortgages (Product Switches)

The transaction allows for conversions, including product switches and conversions to interest-only from repayment or vice versa as part of an arrears management programme. The administrator shall on the last business day of each month identify mortgages subject to conversions and make sure that the following conditions were satisfied in respect of such mortgage:

- no event of default has occurred which is then continuing unwaived at the time of the proposed conversion;
- that the interest rate converted mortgage will be on the terms of the relevant mortgage documentation which terms have not been varied in any material respects other than in respect of the interest rate applicable;
- that the conversion is effected by such means as would be adopted by a reasonably prudent mortgage lender;
- no conversion shall extend the final maturity date beyond 31 January 2045;
- if the mortgage is converted into a fixed-rate mortgage, the administrator shall within 30 days enter into a hedge agreement to hedge the fixed floating interest rate exposure;
- as at the date of conversion, the WA swap rate as calculated by the administrator does not exceed 4%;
- as at the date of conversion, the product of the WA time in years to the end of the fixed-rate period for fixed-rate mortgages, together with the mortgages to be converted to fixed-rate mortgages, and the current balance of fixed-rate mortgages, together with the mortgages to be converted to fixed-rate mortgages, divided by the current balance of all mortgages in the pool, does not exceed 5.25;
- as at the date of conversion, the notional balance of the swap(s) must not exceed or be less than GBP10 million of the fixed-rate balance including additional fixed-rate mortgages;
- the relevant borrower in respect of such interest rate converted mortgages is not more than one month in arrears;
- the conversion takes place on or prior to the step-up date;

- as at the conversion date, the amount standing to the credit of the conversion margin reserve fund is equal to or greater than the required amount;
- that Paragon Mortgages Limited and/or Paragon Banking Group and any holding company or subsidiary of Paragon Banking Group is the administrator and no administrator termination event has occurred; and
- as at the relevant further sale date, more than 50% of the residual certificates are held by a Paragon Banking Group entity.

If any of the conditions above are breached, the loan subject to a product switch will need to be repurchased by Paragon.

Substitution

The transaction does not contain a mechanism by which loans can be substituted during the life of the transaction. If any loan is found to be in breach of the R&Ws or is subject to a product switch and any of the related conditions are breached, that loan will be repurchased by the seller.

Cross Collateral Mortgage Rights Deed

Paragon lends to portfolio landlords, where multiple loans are advanced and secured against multiple properties on a one-to-one relationship, with each loan being a cross-collateral mortgage. It is typically the case that the default of one position within a borrowers' portfolio leads to the entire portfolio becoming immediately due and payable, with a lender enforcing on all cross-collateral liabilities. Enforcement proceeds are then shared across all positions within the portfolio.

On the closing date, the issuer entered into a cross-collateral mortgage rights deed between itself, Paragon and the trustee that limits cross-collateral rights only to cross-collateral mortgages that it beneficially owns.

Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Counterparty Risk

Fitch assesses the counterparty risk under its *Structured Finance and Covered Bonds Counterparty Rating Criteria* to be in line with the ratings assigned based on the documentation provisions and analytical adjustments described in the following table.

Counterparty Risk Exposures

Counterparty role/risk	Counterparty	Relevant rating under criteria	Minimum ratings and remedial actions	Adjustment to analysis if minimum ratings and remedial actions not in line with criteria
Issuer account bank	Citibank, N.A., London Branch	A+/Negative/F1	Minimum deposit ratings of 'A' or 'F1'; replacement or guarantee within 60 calendar days of downgrade below both minimum ratings.	No adjustment. Minimum ratings and remedial actions in line with criteria.
Collection account bank	Barclays Bank plc, National Westminster Bank Plc	A+/RWN/F1, A+/Negative/F1	If rated at least 'BBB' or 'F2', collections held until day after collection period. If downgraded below threshold, collections will be transferred to a separate issuer account bank within two business days.	No adjustment. Minimum ratings and remedial actions in line with criteria.
Interest rate swap provider (swapping mortgages' fixed rate with compounded daily SONIA)	Lloyds Bank Corporate Markets Public Limited Company	A+/Negative/F1	Minimum derivative counterparty rating of 'BBB-' or Short-Term IDR of 'F3'; collateral posting required within 14 calendar days and replacement or guarantee within 30 days of downgrade below both minimum ratings.	No adjustment. Minimum ratings and remedial actions in line with criteria.
Servicing continuity	Back-up servicer facilitator will assist the Issuer in appointing a suitable replacement.	Current servicer rating: Not rated	There is no minimum rating for the servicer.	Servicer continuity risk has been assessed to be mitigated in accordance with Fitch's counterparty criteria, because of presence of back-up servicer facilitator and standard product included in the transaction pool.

Source: Fitch Ratings, PM27

Criteria Application, Model and Data Adequacy

Criteria Application

See page 2 for the list of Applicable Criteria.

Fitch applies its *UK RMBS Rating Criteria* as its sector-specific criteria under the overarching framework provided by the *Global Structured Finance Rating Criteria*, which is the master criteria report for the sector. The *Structured Finance and Covered Bonds Country Risk Rating Criteria* outlines Fitch's approach to assigning and maintaining structured finance and covered bond ratings, where the relevant sovereign's Local-Currency Issuer Default Rating is below 'AAA'. The remaining criteria listed under *Applicable Criteria* are cross-sector criteria that outline Fitch's approach to counterparty risk and interest rate change vulnerability that are relevant for the ratings.

Models

The models below were used in the analysis. Click on the link for the model or for the criteria for a description of the model.

ResiGlobal Model

Multi-Asset Cash Flow Model

When conducting cash flow analysis, Fitch's cash flow model first projects the portfolio scheduled amortisation proceeds and any voluntary prepayments for each reporting period of the transaction life assuming no defaults (and no voluntary terminations, when applicable). In each rating stress scenario, such scheduled amortisation proceeds and prepayments are then reduced by a scale factor equivalent to the overall percentage of loans that are not assumed to default (or to be voluntary terminated, when applicable). This adjustment avoids running out of performing collateral due to amortisation and voluntary prepayments and ensures all of the defaults projected to occur in each rating stress are realised in a manner consistent with Fitch's published default timing curve.

Criteria Variations

We expect a generalised weakening in borrowers' ability to keep up with mortgage payments due to the economic impact of the coronavirus pandemic and the related containment measures. As a result, Fitch has reviewed the rating assumptions applicable to the mortgage portfolio of PM27, in particular the FF. For high-investment-grade ratings, the expected changes are more modest as the corresponding rating assumptions are meant to withstand very severe shocks.

Fitch has therefore applied only a limited buffer to its FF assumptions in the rating categories above 'Asf'. A greater relative changes were applied to the base-case and non-investment-grade ratings as the underlying assumptions are more influenced by economic cycles. An increase of 1.4x and 1.1x to the FF for 'Bsf' and 'AAAsf' rating level respectively were applied to the corresponding assumptions for the portfolio. The ratings based on the assumptions excluding the criteria variation, lead to one-notch higher ratings for classes C and D and no rating impact for classes A and B.

Multiples Applied to the WAFF

Rating level	Multiples Applied to the WAFF
AAAsf	1.1x
AAsf	1.1x
Asf	1.1x
BBBsf	1.2x
BBsf	1.2x
Bsf	1.4x

Source: Fitch Ratings

Data Adequacy

Fitch reviewed the results of a third-party assessment conducted on the asset portfolio information, and concluded that there were no findings that affected the rating analysis.

Overall, Fitch's assessment of the asset pool information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

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.

Surveillance

Fitch will monitor the transaction as per its UK RMBS Rating Criteria. Details of transaction performance will be available to subscribers at www.fitchratings.com.

Appendix 1: Origination and Servicing

Origination Overview

Originator	Paragon Mortgages (2010) Limited, Paragon Bank plc
Assessment date	September 2019
Total lending volume	GBP10,344,000,000
Product mix (total book)	97.6% first-charge BTL/0.6% first-charge owner-occupied

Source: Fitch Ratings, Paragon

Current Staffing

Total number of origination employees	160
Total number of servicing employees	150
Average industry experience (senior management)	15+

Source: Fitch Ratings, Paragon

Lending Criteria

Loan	BTL
Maximum LTV (%)	80%
Interest only	Yes
Maximum term	25 Years
Adverse credit history	
Prior mortgage arrears	Based on credit score, would not normally consider application with prior adverse credit
County court judgement	Not allowed
Last bankruptcy/individual voluntary arrangement	Not allowed
Defaults (last 24 months)	Not allowed
Credit bureau used	Equifax and Experian
Affordability	
Affordability assessment	Full assessment (minimum income requirement of GBP25,000)
Affordability stress rate	Higher of pay rate + 2.0% or 5.5%[a]
% regular overtime/bonus as income	0%
Self-employed	Yes
Self-certified	No
Affordability threshold	125%-140% at higher of pay rate or stress rate
Property	
Type of property	Standard
Valuation	Full physical valuation
Lien	First
New build	Yes

[a] For five-year fixed-rate mortgages, the higher of pay rate and 4.0%.
Source: Fitch Ratings, Paragon

Company Overview

Paragon is a subsidiary of the Paragon Banking Group PLC (BBB/Negative/F3), which provides various financial products to consumers. Paragon has specialised in the origination of BTL products since 1994. Since February 2001, the vast majority of originations have been to professional landlords. Paragon's definition of a professional landlord is somebody who owns four or more BTL properties.

Paragon has in excess of 63,000 BTL mortgages on its books, with a total outstanding balance of GBP10.1 billion as at 30 September 2019. The group's new BTL lending remained broadly static at GBP1.48 billion as at 30 September 2019 compared to GBP 1.49 as at end-2018.

Paragon also originates second-charge loans and owner-occupied mortgages. Neither second-charge nor owner-occupied loans are included in this transaction.

Sourcing/Acquisition of Assets

Distribution is predominantly through the intermediary network with a very small balance of business coming via direct applications. Paragon maintains the network by using a dedicated sales force that is organised by geographic area and also ensures they have appropriate regulatory permissions.

All potential intermediaries must apply to join Paragon's panel. Paragon will check their FCA registration and permissions while also completing financial crime checks and searching for any FCA disciplinary action. Paragon's financial crime team will undertake broker reviews if intelligence or suspect applications are received. The relevant business areas are responsible for monitoring intermediaries in terms of arrears cases.

Underwriting

The underwriting unit is split into three teams, Portfolio (24 staff members), Non-Portfolio (7) and Underwriting Support (9).

All applications are reviewed by an underwriter prior to being run through the automated decision-making system to obtain a score. The score dictates the level of further information required to fully underwrite the application. An underwriter will request the relevant information and log the action on the system. All actions logged on the system create a permanent log of work undertaken and generate workflow that automatically appears in the underwriter's work queue for action at an appropriate date.

All correspondence is logged on the system. Once the final piece of required information has been obtained by the underwriter, the system is updated. The ICR is calculated within the system for non-portfolio BTL cases. A mortgage offer is produced once the underwriter is satisfied with the application. If the underwriter does not hold an appropriate mandate to authorise the offer then the case is passed on to an appropriate mandate holder.

Portfolio lending sees a more thorough underwriting process, with the underwriter reviewing extensive information about the applicant, his/her financial affairs and the property portfolio in question. It results in an extensive rationale for recommendation.

Loan Underwriter/Broker Incentive Scheme

Paragon underwriters are not incentivised by volume of applications reviewed or accepted. Intermediaries receive a procuration fee for each completed mortgage application (50bp), which is the market standard.

Authorisation Levels

The mandate structure is appropriate for the business received. The decision to grant an underwriting mandate is delegated by the group credit committee through the director of first mortgages to the risk management team. Employees are assessed for suitability and competency before either a new mandate or increased mandate is sanctioned. Mandates are published for record and the mandate limits are programmed into the origination system, which ensures that only those with specific authority may authorise a loan advance. Every new underwriter will go through a three-month training plan with a view to obtaining a mandate within three to six months.

Mandate Structure

Mandate level	Maximum loan portfolio (GBP)	Maximum LTV (%) portfolio	Maximum loan non-portfolio (GBP)	Maximum LTV (%) non-portfolio	Maximum group exposure (GBP
1	CCQ	CCQ	CCQ	CCQ	CCQ
2	2,000,000	80	1,000,000	80	5,000,000
3	700,000	80	700,000	80	2,000,000
4	400,000	80	400,000	80	1,000,000
5	200,000	80	200,000	80	750,000
6	100,000	80	100,000	80	250,000

Source: Fitch Ratings, Paragon

Fraud Prevention

Paragon uses a variety of industry-standard fraud prevention tools, including Detect (provided by Experian), CIFAS, National Hunter and SIRA. Paragon's in-house fraud team of 14 staff is responsible for working referrals.

Quality Control and Audits

Quality control is carried out by a separate team as part of the securitisation quality process. Any matters that arise are referred back to the underwriters and a report is sent to the relevant manager. The underwriting process is reviewed using a structured checklist assessment. This assessment is used to identify training needs. The quality review results are presented to senior management on a monthly basis.

Valuations

Full security assessments and valuation reports are required for each loan. The valuation must be conducted by either a Paragon employed surveyor or a member of Paragon's panel of surveyors. Paragon employs 27 surveyors, who are responsible for about 60% of Paragon's valuations. The valuation always includes anticipated achievable rent and comparable rentals should also be supplied with the valuation report. Valuers should endeavor to obtain a minimum of one non-Paragon mortgaged property to be used for comparison purposes.

All valuations completed by panel valuers are audited.

Paragon does not use any automated valuation models.

Valuation reports are valid for three months. If the valuation is older than three months then a Paragon surveyor is able to review the valuation and if appropriate extend it to a maximum of three months. If the valuation is at least five months old and has not been reviewed then a re-inspection must be carried out.

Servicing

Paragon has an in-house servicing team based in Solihull, West Midlands. The team carries out all administration for Paragon mortgages and consumer lending. The servicing team is also responsible for all post-completion activities.

The servicing department is split into three teams:

Securities: responsible for deeds administration, mainly ensuring paragon's charge is registered correctly.

Customer Services: completing typical loan administration duties, this team is made up of 25 full-time employees. The team is also responsible for pre-delinquency contact when considered appropriate.

Collections: Collections is split into three further teams: telephone, portfolio management and recoveries. The telephone team is responsible for initiating telephone and letter contact with borrowers who have missed payments and making arrangements to clear arrears. The portfolio team consists of more experienced staff who works on more problematic and larger borrowings – typically of greater than GBP1 million where more than five properties are involved. The recoveries team is responsible for assessing third-party recovery claims and dealing with insolvent borrowers.

Law of Property Act Receivership of Rent

If the borrower is two months in arrears then Paragon will appoint an ROR on the entire portfolio of the borrower. No court approval is required for this. Paragon uses Redbrick for the ROR process. Paragon will send a surveyor with a property agent to the property and inform the tenant that they have to pay their rent directly to Redbrick. No monies from that point on are paid to the borrower. The rent received by the ROR is used to pay the mortgage, arrears and associated fees, and a small percentage is also taken as a fee.

Once the loan has become current again any monies received in excess to the monthly instalment are used to pay down the mortgage. The ROR will review a property that is under their control each quarter to decide whether to continue letting the property or whether to sell it. The ROR has personal responsibility to act in the best interest of the lender and the landlord and as such has no obligation to return the property to the landlord once the mortgage becomes current. About a third of properties that have had a ROR appointed are returned to the borrower; this will only happen if the borrower can demonstrate that the issue that caused the arrears has been resolved and if the loan still fits according to criteria once re-underwritten. About a third of the properties are sold and the other third are in churn.

Appendix 2: ESG Relevance Score

FitchRatings **Paragon No. 27 plc**

SF ESG Navigator
RMBS

Credit-Relevant ESG Derivation

Paragon No. 27 plc has 7 ESG potential rating drivers

- Paragon No. 27 plc has exposure to accessibility to affordable housing but this has very low impact on the rating.
- Paragon No. 27 plc has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Paragon No. 27 plc has exposure to macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	7	issues	3
not a rating driver	2	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Environmental site risk and associated remediation/liability costs; sustainable building practices including Green building certificate credentials	Asset Quality; Financial Structure; Surveillance	2
Exposure to Environmental Impacts	2	Asset, operations and/or cash flow exposure to extreme weather events and other catastrophe risk, including but not limited to flooding, hurricanes, tornadoes, and earthquakes	Asset Quality; Financial Structure; Surveillance	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	3	Accessibility to affordable housing	Asset Quality; Financial Structure; Surveillance	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Asset Quality; Operational Risk; Surveillance	4
Labor Relations & Practices	1	n.a.	n.a.	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Macroeconomic factors and sustained structural shifts in secular preferences affecting consumer behavior and underlying mortgages and/or mortgage availability	Asset Quality; Financial Structure; Surveillance	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Rule of Law, Institutional and Regulatory Quality	3	Jurisdictional legal risks; regulatory effectiveness; supervisory oversight; foreclosure laws; government support and intervention	Asset Isolation and Legal Structure; Asset Quality; Rating Caps; Surveillance	5
Transaction & Collateral Structure	3	Asset isolation; resolution/insolvency remoteness; legal structure; structural risk mitigants; complex structures	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Rating Caps; Surveillance	4
Transaction Parties & Operational Risk	3	Counterparty risk; origination, underwriting and/or aggregator standards; borrower/lessee/sponsor risk; originator/servicer/manager/operational risk	Asset Quality; Financial Structure; Operational Risk; Rating Caps; Surveillance	3
Data Transparency & Privacy	3	Transaction data and periodic reporting	Asset Isolation and Legal Structure; Asset Quality; Financial Structure; Surveillance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular asset class. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the transaction's or program's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the transaction's or program's credit rating. The three columns to the left of the overall ESG score summarize the transaction's or program's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the transaction's or program's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the Sustainability Accounting Standards Board (SASB).

CREDIT-RELEVANT ESG SCALE - DEFINITIONS

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant; a key transaction or program rating driver that has a significant impact on an individual basis.
4	Relevant to transaction or program ratings; not a key rating driver but has an impact on the ratings in combination with other factors.
3	Minimally relevant to ratings; either very low impact or actively mitigated in a way that results in no impact on the transaction or program ratings.
2	Irrelevant to the transaction or program ratings; relevant to the sector.
1	Irrelevant to the transaction or program ratings; irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.