

Paragon Mortgages (No.28) PLC

Capital Structure

Class	Rating	Outlook	Amount (GBPm)	CE (%)	Interest Rate (%)	Legal Final Maturity
A	AAAsf	Stable	623.8	15.0	SONIA + 0.95	December 2047
B	AAsf	Stable	39.7	9.5	SONIA + 1.35	December 2047
C	Asf	Stable	21.6	6.5	SONIA + 1.65	December 2047
D	BBBsf	Stable	18.0	4.0	SONIA + 1.95	December 2047
Z	NRsf	n.a.	18.0	1.5	SONIA + 2.95	December 2047
S	NRsf	n.a.	11.1	0.0	SONIA + 4.00	December 2047
SVFN	NRsf	n.a.	1.1	0.0	SONIA + 4.00	December 2047
Total			733.5			

Notes: Credit enhancement (CE) is based on a total asset pool of GBP720.1 million plus mandatory further advances of GBP1.1 million 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. Class A to Z notes are backed by the mortgage pool, whereas classes S and S VFN are excess spread notes not backed by the mortgage pool.

Paragon Mortgages (No.28) PLC (PM28) is the 28th transaction from the Paragon series and consists solely 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 97.7% of the pool originated in 2020, with the rest originated between 2013 and 2015.

Key Rating Drivers

Additional Coronavirus Assumptions (Negative): Fitch Ratings expects 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 applied coronavirus assumptions to the mortgage portfolio (see *EMEA RMBS: Criteria Assumptions Updated due to Impact of the Coronavirus Pandemic*).

The combined application of revised 'Bsf' representative pool weighted average foreclosure frequency (WAFF), revised rating multiples and arrears adjustment resulted in a multiple to the current FF assumptions of 1.4x at 'Bsf' and of 1.1x at 'AAAsf'.

Recent Prime BTL Originations (Positive): Paragon is an experienced lender that specialises in the BTL sector and lends predominantly to professional BTL investors. Fitch views Paragon's underwriting standards to be in line with its expectations for a prime BTL lender, which can be observed in the robust performance of previous transactions.

The mortgages in the portfolio have a low WA seasoning with a significant portion originated in the March to May 2020 lockdown (33.5%). Paragon took a more cautious approach during this period capping its maximum loan-to-value (LTV) to 75% and withdrawing from lending on houses of multiple occupation, due to the difficulty in conducting psychical valuations.

Both LTV and affordability ratios are in line or better than many recent UK RMBS transactions rated by Fitch (see [Transaction Comparisons](#)).

Inside This Report	Page
Key Rating Drivers	1
Highlights	2
Key Transaction Parties	3
Transaction Comparisons	4
Sector Risks: Additional Perspective	5
Asset Analysis	5
Cash Flow Analysis	10
Rating Sensitivity	16
Transaction Structure	17
Counterparty Risk	20
Criteria Application, Model and Data Adequacy	20
Surveillance	21
Appendix 1: Origination and Servicing	22

Closing occurred on [date]. The transfer of the portfolio to the issuer occurred on [date]. The ratings assigned above are based on the portfolio information as of [date] and updated as of [date], 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](#)

Analysts

Cristina Pagani
+44 20 3530 2612
cristina.pagani@fitchratings.com

Thomas Kayani
+44 20 3530 1006
thomas.kayani@fitchratings.com

Permitted Product Switches (Negative): Any switches in repayment types on the underlying loans are expected to be limited prior to the respective step-up dates. However, as product switches will be retained in the transaction Fitch incorporated the reversion dates into its cash flow analysis in order to stress the excess spread on the asset portfolio. In addition, this allowed Fitch to assess the impact of any over- or under-hedging due to prepayments and defaults not envisaged by the swap notional (see [Cash Flow Analysis](#)).

Interest Rate Mismatch Hedged (Positive): All 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 from, and may be updated to reflect, the interest rate reset dates of the mortgage pool.

Highlights

Highlights

Effect	Highlight
-	<p>Desktop Valuations: Paragon was unable to provide valuation reports based on physical property inspections in the spring lockdown. A desktop valuation process was conducted by Paragon's in-house team of regional surveyors, supplemented by panel in Scotland only (there are no Scottish mortgages in the pool). The desktop valuation process was restricted to a limited number of non-complex properties with up to four tenants sharing. The valuation of the more complex residential investment properties, such as houses in multiple occupation (HMOs) or multi-unit blocks (MUBs), were placed on hold until they could be inspected. Each desktop appraisal was then given a category rating and good evidence of high confidence levels was provided.</p> <p>Fitch notes that a rigorous process has been put in place and that desktop valuations have only been applied to a minority of the total originations, representing a limited number of straightforward cases and applies a standard 5% haircut to desktop valuations as per criteria. The proportion of loans in the pool attracting the adjustment is 9.5% (see Desktop Valuations).</p>
Neutral	<p>First Payment Condition: The first payment received in full for each loan will not be included in the mortgage sale agreement for this transaction. This reflects the fact that originations in the second half of October will not have their first payment due before transaction closing, representing about 5.1% of the pool by loan count. Fitch noted the following mitigants – the relevant seller is obliged to repurchase all loans for which the first two payments have not been received; these loans can only remain in the pool for a limited period (about three months) if the two initial payments are missed; and Paragon Banking Group PLC has a good credit quality, with a Long-Term Issuer Default Rating of 'BBB'.</p>
+	<p>Payment Holidays and Discretionary Reserve Fund: A limited proportion of loans, representing 0.7% of the pool, are on a payment holiday and therefore Fitch did not apply any additional stress. Loans previously on a payment holiday that have now resumed monthly payments (unpaid instalments have been capitalised) represent 2.2% of the pool. An optional payment holiday cash reserve ledger was established, but not funded, at close. This ledger will be funded by trapping excess spread in the revenue priority of payments in the event of a material future take-up of payment holidays. This will be determined by the administrator. The amount transferred (if any) to the revenue receipts from the payment holiday reserve fund on an interest payment date will also be determined by the administrator.</p>
+	<p>Fixed Loans Revert to SVRs: Loans in the pool were predominantly originated in 2020 (97.7% of the pool) and currently pay a fixed rate (two to five years). About 66.5% of the pool will revert to a floating rate between 1Q25 and 3Q25. The reversion rate is either Paragon's SVR, currently 4.95%, or Paragon's discounted SVR which is 75bp lower (4.20%). Of the loans in the pool, 88.9% are eligible for the discounted SVR, compared with about 70% in PM27. However, Fitch expects most borrowers to switch product rather than revert to the SVR and has reflected this in its analysis.</p>
+	<p>Comparable LTVs and Interest Coverage Distribution: Apart from the inclusion of the discretionary PH reserve fund, the structure of PM28 remained unchanged compared with PM27. The WA original LTV (OLTV) of PM28's mortgage pool is 71.9%, versus 73.3% of PM27. A total of 9.9% of loans was originated with an LTV higher or equal 80%, which is in line with other transactions featuring primarily recent originations. The WA Fitch-calculated interest coverage ratio (ICR) of the pool is 101.4%, with an average stressed rate of 8.2% (97.1% and 8.3% for PM27, respectively). About 38.5% of the pool in classes 8 to 10, which is better than the affordability distribution in comparable BTL pools.</p>

Source: Fitch Ratings

Key Rating Driver (Negative/Positive/Neutral)

Rating Impact	Key Rating Driver
Negative	Coronavirus-related Additional Assumptions
Positive	Recent Prime BTL Originations
Negative	Permitted Product Switches
Positive	Interest Rate Mismatch Hedged

Applicable Criteria

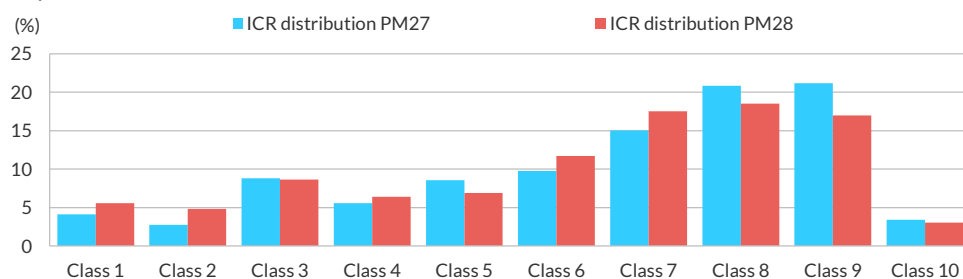
- [Global Structured Finance Rating Criteria \(June 2020\)](#)
- [Structured Finance and Covered Bonds Counterparty Rating Criteria \(January 2020\)](#)
- [Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(December 2019\)](#)
- [Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds \(Excel\) \(December 2019\)](#)
- [Structured Finance and Covered Bonds Country Risk Rating Criteria \(September 2020\)](#)
- [UK RMBS Rating Criteria \(July 2020\)](#)

Related Research

- [Global Economic Outlook - September 2020 Recovery Underway \(September 2020\)](#)
- [EMEA RMBS: Criteria Assumptions Updated Due to Impact of the Coronavirus Pandemic \(July 2020\)](#)

Interest Coverage Distribution

% by Cbal



Source: Fitch Ratings, Paragon

Libor Exposure

Assets	Rated notes	Hedges
No exposure	No exposure	

Source: Fitch Ratings, PM28

Key Transaction Parties

Key Transaction Parties

Role	Name	Fitch Rating
Issuer	Paragon Mortgages (No.28) 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	Citibank, N.A., London Branch	A+/Negative/F1
Collection account banks	Barclays Bank plc National Westminster Bank Plc	A+/Negative/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, PM28

Transaction Comparisons

Transaction Comparison

Issuer	PM28	PM27	PM26	Canterbury Finance No.3 PLC	PMF 2020-1B
Closing date	November 2020	April 2020	June 2019	September 2020	January 2020
Total issuance (GBPm)	733.5	776.2	638.1	1,091.1	388.9
Originator	Paragon	Paragon	Paragon	OSB	CCFS
Weighted average foreclosure frequency					
AAA	22.9	25.0	20.4	34.1	24.0
AA	18.4	20.1	16.5	27.3	19.2
A	14.3	15.5	12.2	21.2	14.5
BBB	10.2	10.8	8.2	15.1	9.8
BB	7.8	8.2	5.0	11.6	7.1
B	5.1	5.1	3.3	7.4	3.9
Weighted average recovery rate					
AAA	41.8	41.0	43.8	40.9	43.2
AA	47.3	46.3	48.7	46.2	48.8
A	52.8	51.7	53.5	51.5	54.4
BBB	58.2	57.0	58.4	56.8	60.0
BB	61.6	60.4	63.1	60.1	63.4
B	65.1	63.7	67.9	63.4	66.9
Portfolio characteristics					
Collateral balance (GBPm)	720.1	759.7	618.1	1,049.1	375.8
Number of borrowers	2,663	2,808	3,187	4,010	1,883
Average current balance (GBP)	270,417	270,536	193,958	261,631	199,567
Loan-to-value (%)					
Weighted average sustainable loan-to-value	96.5	98.4	100.0	98.9	95.5
Weighted average current loan-to-value	71.8	73.2	70.8	73.2	71.0
Weighted average original loan-to-value	71.9	73.3	71.5	73.3	71.2
Original loan-to-value >=80%	9.9	19.6	6.8	16.9	11.5
Weighted average ICR (for buy-to-let)	101.4	97.1	89.5	98.9	95.5
Borrower characteristics (%)					
CCJs	0.0	0.0	0.0	0.0	0.0
BO/IVAs	0.0	0.0	0.0	0.0	0.0
Arrears <=3.0 payments	0.0	0.0	0.0	0.0	0.0
Arrears >3.0 payments	0.0	0.0	0.0	0.0	0.0
Mortgage characteristics (%)					
Buy-to-let	100	100	100	100	100
Interest-only	93.4	94.6	92.4	90.2	95.2
Stressed rate	8.2	8.3	n/a	n/a	n/a

Source: Fitch Ratings, transaction documents Pool statistics are calculated by Fitch and may differ from figures reported in the offering circular. These are based on a pool cut-off date October 2020 for PM28. The asset levels, WA LTVs and WADTI for PM28 and Canterbury Finance No.3PLC have been calculated applying the updated assumptions described in the EMEA RMBS: Criteria Assumptions Updated due to Impact of the Coronavirus Pandemic. PMF 2020-1B and Paragon 27 have been calculated applying the updated assumptions described in the UK RMBS Rating Criteria, whereas PM26 was analysed under the previous criteria.
Source: Fitch Ratings, transaction documents

Sector Risks: Additional Perspective

Key Sector Risks

Sector or asset outlook	Fitch's 2020 asset outlook for UK BTL is negative (please see Fitch Ratings Updates 2020 Sector Outlooks To Reflect Coronavirus Impact).
Macro or sector risks	Fitch forecasts UK GDP to shrink by 11.5% in 2020 followed by growth of 4.0% for 2021. We expect unemployment to increase from 3.8% at end-2019 to 6.0% and 7.6% in 2020 and 2021, respectively. Fitch believes that the deterioration of the labour market will put pressure on mortgage performance. The agency expects UK residential mortgage performance to weaken with the payment holiday and government support schemes coming to an end.
Relevant research	Please refer to Fitch's Global Economic Outlook - September 2020 for more of our forecasts on the UK economy. For further considerations on the UK mortgage market trends, please see our UK Mortgage Market Index: September 2020 and European RMBS Pulse: August 2020 . For the additional stress scenario analysis please refer to EMEA RMBS: Criteria Assumptions Updated Due to Impact of the Coronavirus Pandemic .

Source: Fitch Ratings, PM28

Asset Analysis

UK BTL Sector

Paragon is a specialist lender focused on the professional landlord segment of 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 Prudential Regulation Authority (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 1.0x 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 reassessed Paragon's operational capacity in September 2020, in April 2020 (at the time of PM27) and with 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 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 sources its applications primarily through 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, which Paragon has fully adopted.

Fitch considers Paragon's underwriting procedures, processes and systems to be adequately geared up to deal with the more complex underwriting of professional landlords with large 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.
 2. Desktop valuations remain at most untested, despite Fitch has not identified a clear weakness in the process.
-

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. 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 to inform the tenant that henceforth their rent payments should be redirected to the ROR, who forwards it to Paragon, instead of 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 is instructed to 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 their 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

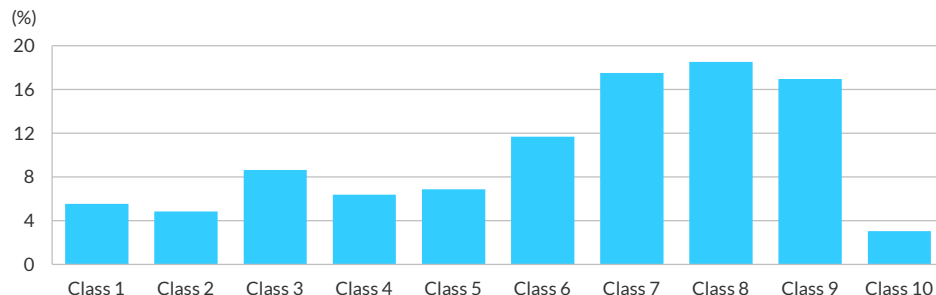
The pool is skewed towards Fitch's higher ICR classes. Fitch believes this is mainly due to the affordability assessment for borrowers on a five-year fixed-rate product, which represents about 66.5% of the pool. Paragon assesses affordability at the higher of the pay-rate or 4% for such loans, which is consistent with PRA regulations. About 56.0% of the pool is concentrated in classes 7 and above, with about a quarter of the pool in classes 9 and 10.

This pool has a WA ICR calculated by Fitch of 101.4%, which is higher than that observed in other asset pools from the Paragon series (97.1%, for PM27, 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 11% of the pool current balance) or discounted SVR (89% 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, leading to a stronger affordability position for borrowers in this pool.

ICR Distribution

% by Cbal

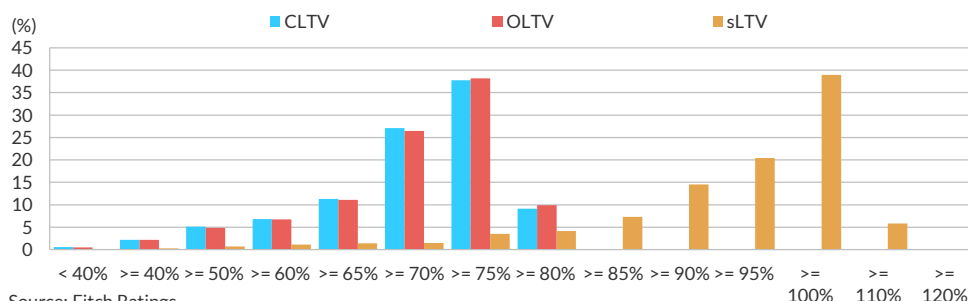


Source: Fitch Ratings, PM28

Loan-to-Value Ratios

The WA OLTV of the mortgage pool is 71.9%, in line with peer transactions rated by Fitch. A total of 9.9% of loans was originated with an LTV of 80% or greater, which is in line with other transactions containing recently originated assets. Due to the limited seasoning of this pool, there has been limited or no amortisation and the current WA LTV is 71.8%. This is higher than previous Paragon transactions featuring more seasoned assets, although again it is in line with other recent Fitch-rated RMBS transactions containing recently originated assets.

LTVs Distributions



Source: Fitch Ratings

Borrower Profile

Self-Employed Borrowers

Self-employed borrowers form 69.0% of the current balance in the pool. These are typically professional landlords who rely solely on rental income for their mortgage repayments. No adjustment is made for borrowers designated as self-employed for BTL pools, in line with Fitch's criteria, since managing their property portfolio is in most instances their employment.

The demonstrated ability of professional landlords to manage their properties, based on the previous performance of Paragon transactions, has been consistently observed by Fitch.

Limited Companies

About 66% 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, 93.4% 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.

The risk associated with balloon payments is also likely to be lower for BTL loans than owner occupied loans since landlords can more easily sell (or refinance) the property as it is not their primary residence.

Repayment Type

	Interest-only	Repayment
Repayment type (%)	93.4	6.6

Source: Fitch Ratings, Paragon

Interest Rate Types

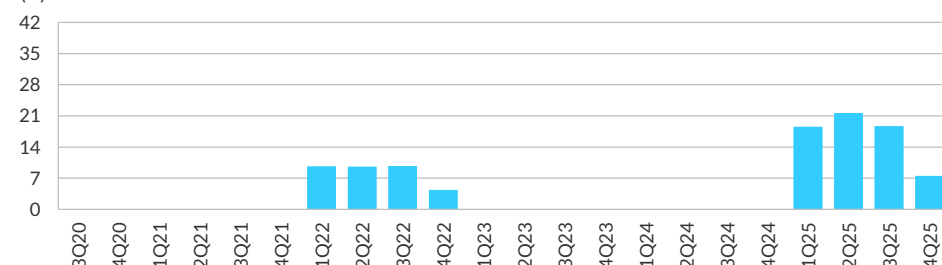
The pool comprises loans that pay a fixed rate before switching to Paragon's SVR or discounted SVR.

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. In the event the swap schedule is insufficient to cover any additional fixed rate loans (as borrowers product switch to new fixed rate products) either new additional swaps will be entered into under the terms of the swap agreement or the existing swap replaced; subject to an under- and over-hedging buffer of GBP10 million.

The timing difference between the fixing date for the variable-rate mortgages and the notes is unhedged.

Reversions Profile

% by Cbal
(%)



Source: Fitch Ratings, PM28

Further Advances

Up to 16% of the initial pool can be added at a later stage to the pool, in addition to mandatory further advances (MFAs, related to any advances retained pending on the completion of construction) of GBP1.05 million 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 15.7% and 33.8% of the pool, respectively. Of the remainder, about 23.9% are either houses in multiple occupation or are multi-unit blocks (all classified as multifamily). This is a lower proportion of multifamily houses than the previous PM27 transaction (about 25.9%).

Flats and multifamily properties attract a higher foreclosure sale adjustment than houses under Fitch’s criteria. About 6.5% of the pool is subject to Fitch’s illiquid property adjustment.

Desktop Valuations

During the March to May 2020 lockdown, Paragon was unable to provide valuation reports based on physical property inspections. A desktop valuation process was conducted on a limited number of cases with relatively low LTVs and restricted to non-complex properties with up to four tenants sharing. The valuation of the more complex residential investment properties, such as HMOs or MUBs, were placed on hold until they could be inspected. Each desktop appraisal was then given a category rating and good evidence of high confidence levels was provided.

Paragon does not expect any medium- to long-term shift to desktop valuations and remains more inclined to continue conducting physical valuations with in-house surveyors.

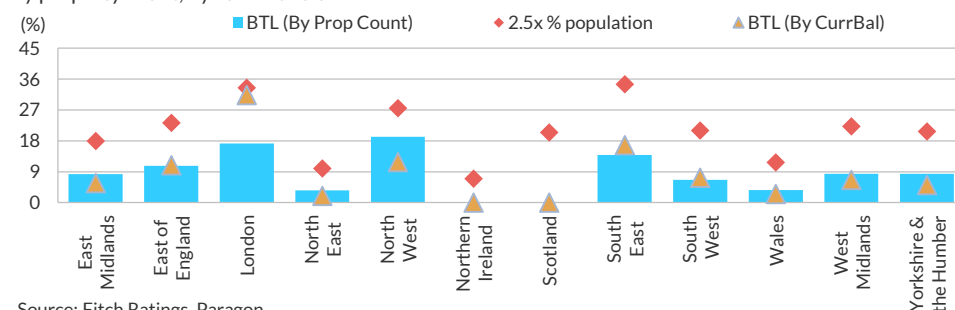
Fitch also notes that a rigorous process has been put in place and that desktop valuations have only been applied to a minority of the total originations, representing a limited number of straightforward cases. It applies a standard 5% haircut to desktop valuations as per criteria. The proportion of loans in the pool attracting the adjustment is 9.5%.

Geographical Distribution

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

Geographic Distribution

By property count, by current balance



Source: Fitch Ratings, Paragon

Concentration Risk

Potential concentration risk primarily stems from Paragon’s business model, which targets professional landlords who typically have multiple 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 42 (25 for PM27), although the average is only 1.4 (1.5 for PM27), 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.

These 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 WARR levels when modelling the transaction cash-flows.

The asset levels below include assumption updates 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 result, Fitch applied updated criteria assumptions to PM28's mortgage portfolio (see *EMEA RMBS: Criteria Assumptions Updated due to Impact of the Coronavirus Pandemic*). The combined application of revised 'Bsf' representative pool WAFF, revised rating multiples and arrears adjustment resulted in a 'Bsf' multiple of 1.4x to the current FF assumptions and of 1.1x at 'AAAsf'. For higher rating levels, the updated assumptions are more modest as the corresponding rating assumptions are already meant to withstand more severe shocks.

ResiGlobal Model Output

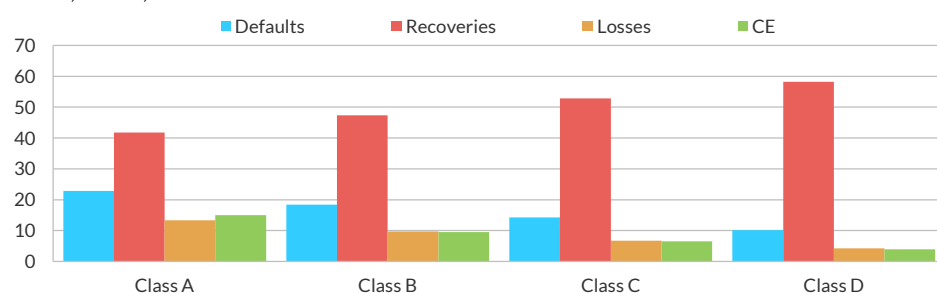
Rating level	WAFF (%)	WARR (%)
AAAsf	22.9	41.8
AAsf	18.4	47.3
Asf	14.3	52.8
BBBsf	10.2	58.2
BBsf	7.8	61.6
Bsf	5.1	65.1

Source: Fitch Ratings

Cash Flow Analysis

Cash Flow Analysis

WAFF, WARR, EL and CE



Source: Fitch Ratings

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 further advances, 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

Available Funds (Simplified) (Cont.)

Available revenue receipts	Available principal receipts
Amounts received under the swap agreement	On the final redemption date, 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), Conversion MRF release amounts and releases (if any) from the payment holiday reserve fund	
Principal to meet senior expenses deficit	

Source: Fitch Ratings, PM28

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
Revenue priority of payments	Principal priority of payments
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, conversion margin reserve fund discretionary amount and discretionary payment holiday reserve fund	
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, PM28

Step-Up in Margin on Notes

From the interest payment date (IPD) in December 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	SONIA + 0.95	SONIA + 1.425
Class B	SONIA + 1.35	SONIA + 2.025
Class C	SONIA + 1.65	SONIA + 2.475
Class D	SONIA + 1.95	SONIA + 2.925

Source: Fitch Ratings, PM28

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 of the due date;
- non-payment by the issuer of any interest amount on the most senior class within 15 days of 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 notes subordinate to each respective class and the reserve fund. Specifically, the class A notes receive CE from losses being absorbed by the class Z to B notes and the reserve fund (via the principal deficiency ledgers) before being allocated to the class A 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%; and
- 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 irreversible.

Mortgage Margin Reserve Fund

A mortgage margin reserve fund (MRF) established at closing, along with a related mortgage MRF discretionary fund (MRDF), will be available to cover for any shortfall on the WA interest rate received on the assets and a rate equal to daily compounded SONIA plus 3.0%, as calculated by the administrator.

At closing, the mortgage MRF is expected to be zero but can be funded via part of the proceeds of the class S notes. 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 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%, since 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. MFAs of GBP1.05 million 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.

Paragon may 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 GBP55 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.

Discretionary Payment Holiday Reserve Fund

A discretionary payment holiday reserve fund is not funded at closing, but can be funded at the discretion of the administrator (Paragon) by trapping excess spread (if any) in the revenue priority of payments.

The value of the payment holiday reserve fund and its release into the revenue ledger (if any) will be reasonably determined by the administrator, in accordance with the practices of a reasonable prudent administrator.

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 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, the margins in this pool are similar across all loans, which mitigates this specific risk.

Notes Amortisation

The notes amortise sequentially.

Hedging and Interest Rate Risk

The notes in the transaction are linked to SONIA while the assets pay a fixed rate.

The issuer has entered into an interest rate swap to hedge the mismatch between assets and liabilities. Under the swap agreement, the issuer pays a fixed rate (0.006%), based on a fixed swap notional assuming a 0% prepayment (CPR) schedule, to the swap counterparty and receives compounded SONIA. Further swaps will be added with a minimum denomination of GBP10 million to reflect mortgages switching to further fixed rates, while in cases of defaults and prepayments of fixed-rate mortgages, the swap notional may be partly cancelled in case sufficient revenue funds are available.

At the end of their respective fixed rate period the fixed rate loans will revert to Paragon's SVR whereby 11% of the loans revert to Paragon's SVR, and 89% revert to Paragon's discounted SVR (75bp lower than the standard one). The WA interest charged in the pool tape is 3.4% 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 only take place when the WA life of fixed-rate loans multiplied by the share of fixed-rate loan is below 5.25 years.

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

Additional Fixed-Rate Loans

Additional fixed-rate loans added to the transaction, through product switches or further advances will be hedged by the issuer by entering into new swap agreements. Under the new swap agreements, the issuer will pay 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.

Fixed-Rate Loan Modelling Approach

As 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 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 fixed-rate loans:

- product switches (increasing the share of fixed-rate loans) are only permitted to occur till the step-up date;
- an increase in fixed-rate loans, either through further advances or via product switches is limited by GBP10 million limit on an over-hedged position; as per the transaction documents, the over or under hedging is allowed as long as it is not more than GBP10 million at which point the issuer may enter into additional swap agreements or unwind.
- an increase in 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 an increase in fixed-rate loans in the pool.

It is worth noting that borrowers are unlikely to prepay before the end of their respective fixed period since this incurs a prepayment penalty fee. For a full list of conditions associated with the addition of fixed-rate loans through further advances and product switches, please see the *Product Switches/Additional Loan* section under *Transaction and Legal Structure*.

Based on the conditions listed above regarding additional loans, product switches and the swap notional determination, Fitch assumed an additional swap will be entered into 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 sufficient funds to cancel any excess swap notional based on defaults and prepayments.

The swap rate assumed for hedging 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 swap rate the issuer pays (40bp TBC) in stable and decreasing interest rate scenarios. Fitch assumed that all of the loans, irrespective of the scenarios above, eventually revert to Paragon's SVR or Discounted 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.

Rating 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 allow for mortgage payment holidays of up to six 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 - Update*, the agency 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% increase in the WAFF and a 15% decrease in the WARR. The results indicate a maximum of two-notch impact on the notes.

A limited proportion of loans, representing 0.7% of the pool, are on a payment holiday and Fitch therefore did not apply any additional stress.

Rating Sensitivity to WAFF and WARR

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

Source: Fitch Ratings

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The transaction's performance may be affected by changes in market conditions and economic environment. Weakening economic performance is strongly correlated to increasing levels of delinquencies and defaults that could reduce credit enhancement available to the notes.

In addition, unanticipated declines in recoveries could result in lower net proceeds, which may make certain notes' ratings susceptible to potential negative rating action 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. Assuming a 30% increase in the WAFF and a 30% decrease in the WARR, ratings would deviate from the current ratings by up to four notches.

Rating Sensitivity to WAFF and WARR

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

Source: Fitch Ratings

The *Rating Sensitivity* section provides insight into the model-implied sensitivities the transaction faces when one assumption is stressed, while holding others equal. The modelling process uses the estimation and stress of these variables to reflect asset performance in a stressed environment. 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.

■	No change or positive change
■	Negative change within same category
■	-1 category change
■	-2 category change
■	-3 or larger category change

See report for further details

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

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

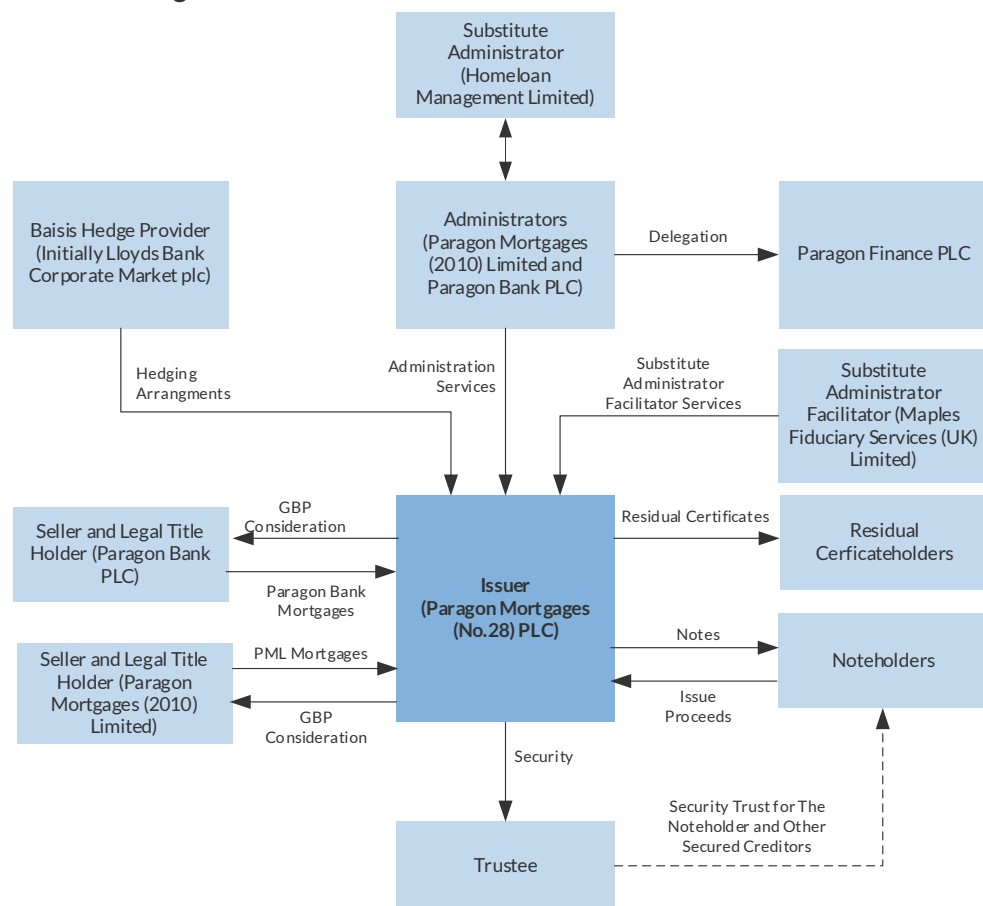
Rating Sensitivity to WAFF and WARR

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

Source: Fitch Ratings

Transaction Structure

Structure Diagram



Source: Fitch Ratings, PM28

Libor Fall-back Provisions

Assets	Rated Notes	Derivatives
No Libor exposure	No Libor exposure	No Libor exposure

Source: Fitch Ratings, PM28

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 which includes product switches and, in addition, 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 ensure that the following conditions were satisfied in respect of such mortgage conversions:

- 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 October 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 years;
- 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 half of the residual certificates are held by a Paragon Banking Group entity.

In the event any of the conditions above are breached, the loan subject to a product switch will 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

Fitch relies in its credit analysis on legal and/or tax opinions provided by transaction counsel for the avoidance of doubt. Fitch has always made clear that it 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+/Negative/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, PM28

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.

The coronavirus pandemic is creating a significant disruption to the global macroeconomic environment. Despite government measures to support household income and the implementation of payment holidays schemes, we believe there will be increased pressure on asset performance. We expect increased arrears and potentially defaults from recent years. As a result, Fitch applied additional stress scenario analysis as per its *EMEA RMBS: Criteria Assumptions Updated Due to Impact of the Coronavirus Pandemic*.

Criteria Variations

n/a

Models

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

[ResiGlobal](#)

[Multi-Asset Cash Flow Model](#)

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 regularly monitor the transaction. Details of the transaction's performance are available to subscribers at <https://app.fitchconnect.com/home>.

Appendix 1: Origination and Servicing

Origination Overview

Originator	Paragon Mortgages (2010) Limited, Paragon Bank plc
Assessment date	31 March 2020
Total lending volume	GBP10,676,000,000
Product mix (total book)	97.7% 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 (%)	75% (since March 2020 lockdown)
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, other than where a desktop valuation was used during lockdown for single self-contained properties
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 more than 64,000 BTL mortgages on its books with a total outstanding balance of GBP10.4 billion as at 31 March 2020. The group's specialist BTL lending remained broadly static for the six months to 31 March 2020 at GBP 695 million compared with GBP 693 million for the six months to 31 March 2019.

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 procurement 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, but during the spring 2020 lockdown, Paragon was unable to provide valuation reports based on physical property inspections. A desktop valuation process was conducted by Paragon's specialist in-house team of regional surveyors, supplemented by panel in Scotland only (there are no Scottish mortgages in the pool). The desktop valuation process was restricted to a limited number of non-complex properties with up to four tenants sharing.

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 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.

Credit-Relevant ESG Derivation

Paragon Mortgages (No. 28) PLC has 7 ESG potential rating drivers

- Paragon Mortgages (No. 28) PLC has exposure to accessibility to affordable housing but this has very low impact on the rating.
- Paragon Mortgages (No. 28) 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 Mortgages (No. 28) 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

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 Fitch'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).

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

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.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.