Paragon Mortgages (No.29) PLC

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Capital Structure

Class	Rating	Outlook	Amount (GBPm)	CE (%)	Interest rate (%)	Legal final maturity
A	AAAsf	Stable	747.0	17.00	SONIA + 1.20	December 2055
B	AAsf	Stable	33.8	13.25	SONIA + 1.90	December 2055
C	A-sf	Stable	29.3	10.00	SONIA + 2.75	December 2055
D	B+sf	Stable	45.0	5.00	SONIA + 3.80	December 2055
Z	NRsf	n.a.	45.0	0.00	SONIA + 4.00	December 2055
S	NRsf	n.a.	13.9	0.00	SONIA + 4.00	December 2055
S VFN	NRsf	n.a.	85.0	0.00	SONIA + 4.00	December 2055
Total Class A-Z			**900.0**			

Notes: Credit enhancement (CE) is provided by subordination of more junior notes. Class A to Z notes are backed by the mortgage pool, whereas classes S and S VFN are excess spread notes not collateralised. Numbers are subject to rounding.

Closing occurred on 1 November 2023. The transfer of the portfolio to the issuer occurred on 1 November 2023. The ratings assigned above are based on the portfolio information as of 11 October 2023 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.

Paragon Mortgages (No.29) PLC (PM29) is the 29th 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 revolving for a five-year period with the ability to purchase additional assets into the portfolio subject to certain conditions.

Key Rating Drivers

Recent BTL Originations: Paragon is an experienced lender that specialises in the BTL sector and lends predominantly to professional investors. Fitch Ratings views Paragon's underwriting standards to be in line with its expectations for a BTL lender, which can be observed in the robust performance of previous transactions. Fitch applied a 1.0x originator adjustment to the loans. The assets in the closing pool were originated between 2011 and 2023 although new assets can be added during the revolving period.

The original loan-to-value of the pool is 70.1% which is slightly less than comparison transactions. The pool contains no loans to any borrower with either a county court judgement or bankruptcy registered against them in line with Paragon's lending conditions.

Revolving Transaction: The transaction features a five-year revolving period with no scheduled amortisation of the notes. This allows new assets to be added to the portfolio. The replenishment criteria mitigate the risks related to any significant migration of the portfolio's credit profile, but the risk of deterioration during the revolving period remains. Fitch assumed changes to the portfolio characteristics, giving credit to the replenishment criteria listed in the transaction documentation where relevant.

Fixed Notional Swap: All fixed-rate loans included in the pool must be hedged to mitigate the risk of adverse interest rate movements as the notes pay a floating rate. This is achieved through a fixed swap notional which assumes no defaults or prepayments. The maximum weighted average (WA) swap rate is 4%.

A combination of high prepayments and decreasing interest rates would cause a significant reduction in the amount of revenue funds available to the notes due to the high outward payment on the swap relative to the size of the pool. This risk has constrained Fitch's rating of the class D notes.

Representations, Warranties and Enforcement Mechanisms Appendix

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Reserves Provide Liquidity Support: The transaction features a liquidity reserve which provides coverage to payments of senior expenses, class A interest and class B interest. A general reserve is also in place which covers the same items plus class C and D interest and is used after the liquidity reserve. Neither reserve can cover credit losses so are available exclusively for liquidity purposes.

Applicable Criteria

Global Structured Finance Rating Criteria (March 2023)

UK RMBS Rating Criteria (February 2023)

Structured Finance and Covered Bonds Counterparty Rating Criteria (March 2023)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (August 2022)

Structured Finance and Covered Bonds Country Risk Rating Criteria (July 2023)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (December 2022)

Highlights

Highlights

Effect	Highlight
+	**Turbo Amortisation Feature:** There is a turbo amortisation feature in place whereby, from the step-up date, the remaining revenue at a junior position in the revenue priority of payments can be diverted to pay down the outstanding principal of the notes.
+	**Principal to Pay Interest:** The ability to use principal to make up for interest shortfalls has been expanded compared to the previous Paragon Mortgages transaction. This is available at all times for class A. For classes B, C and D this is possible if the note is either the most senior outstanding or has less than 10% of the notes balance registered on its principal deficiency ledger, uncured. This feature increases the transaction's ability to manage short-term revenue shortfalls.
Neutral	**Multifamily Homes:** The transaction features an increased portion of multifamily homes from earlier transactions. A total of 39.7% of the total pool comprises houses in multiple occupation (HMOs) and 17.0% comprises multi-unit blocks (MUBs). There is a 3.4% crossover of MUBs which are made up of HMOs. The Fitch-calculated interest coverage ratio of the pool is higher than average at 122.1%, partly due to the number of HMOs in the pool which are in general higher-yielding. The rating impact of this is limited as, for the asset levels applied, Fitch considers the minimum interest coverage condition in place for the revolving period.
-	**SVR Rate Compression:** All the loans in the pool revert to a rate linked to Paragon's standard variable rate (SVR), many with a discount against this rate. The margin between this SVR and the Bank of England base rate has been compressed since the last Paragon Mortgages transaction as not all of the increases in the Bank of England base rate have been reflected in Paragon's SVR.
Neutral	**First Payment Condition:** The first payment received in full for each loan will not be included in the mortgage sale agreement for this transaction in line with the previous Paragon Mortgages transaction. Additionally, loans can be sold to the issuer prior to a payment being made. Fitch considers a loan payment being made as a protection against fraudulent loans but in this case noted certain 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. No repurchases have been made for this reason in Paragon Mortgages (No.28), and Paragon Banking Group PLC has good credit quality, with a Long-Term Issuer Default Rating of 'BBB+'.

Source: Fitch Ratings, PM29

Libor Exposure

Assets	Rated notes	Hedges
No exposure	No exposure	No exposure

Source: Fitch Ratings, PM29

Key Transaction Parties

Role	Name	Fitch rating (Issuer Default Rating unless otherwise stated)
Issuer	Paragon Mortgages (No.29) PLC	Not rated
Originators, sellers	Paragon Mortgages (2010) Limited, Paragon Bank PLC	BBB+/Stable/F2 (parent: Paragon Banking Group PLC)
Administrator, servicer	Paragon Mortgages (2010) Limited, Paragon Bank PLC	BBB+/Stable/F2 (parent: Paragon Banking Group PLC)
Account bank	HSBC Bank plc	AA-/Stable/F1+
Collection account banks	Barclays Bank plc	A+/Stable/F1
	National Westminster Bank PLC	A+/Stable/F1
Principal paying agent	Citibank, N.A., London Branch	A+/Stable/F1
Initial swap provider	Banco Santander, S.A.	A-/Stable/F2 (Derivative Counterparty Rating: A)
	National Westminster Bank PLC	A+/Stable/F1
Arrangers	Banco Santander, S.A.	A-/Stable/F2
	Merrill Lynch International	AA/Stable/F1+

Source: Fitch Ratings, PM29

Transaction Comparisons

Issuer	PM29	PM28	PM27	Tower Bridge Funding 2023-2	Canterbury Finance No.5 PLC
Closing date	November 2023	November 2020	April 2020	June 2023	August 2022
Total issuance (GBPm)	900.0	733.5	776.2	400.0	1,309.8
Originator	Paragon	Paragon	Paragon	Belmont Green	OneSavings Bank
Weighted average foreclosure frequency (WAFF)					
AAA	24.4	22.9	25.0	29.5	27.2
AA	19.7	18.4	20.1	23.8	21.9
A	15.0	14.3	15.5	18.1	16.5
BBB	10.3	10.2	10.8	12.2	11.2
BB	7.4	7.8	8.2	8.8	8.0
B	4.2	5.1	5.1	5.0	4.5
Weighted average recovery rate (WARR)					
AAA	46.5	41.8	41.0	54.1	46.7
AA	52.5	47.3	46.3	61.0	52.7
A	58.4	52.8	51.7	67.6	58.6
BBB	64.1	58.2	57.0	73.9	64.6
BB	67.7	61.6	60.4	77.8	68.3
B	71.1	65.1	63.7	81.5	72.0
Portfolio characteristics					
Collateral balance (GBPm)	899.2	720.1	759.7	400.0	1,296.1
Number of borrowers	3,041	2,663	2,808	1,771	4,831
Loan-to-value (%)					
Weighted average sustainable loan-to-value (WA sLTV)	80.5	96.5	98.4	82.9	87.9
Weighted average current loan-to-value (WA CLTV)	69.5	71.8	73.2	73.1	73.5
Weighted average original loan-to-value (WA OLTV)	70.1	71.9	73.3	73.9	73.7
Original loan-to-value >=80%	2.8	9.9	19.6	25.2	12.0
Weighted average interest coverage ratio (ICR)	122.1	101.4	97.1	73.6	85.4
Borrower characteristics (%)					
CCJs	0.0	0.0	0.0	10.9	0.0
BO/IVAs	0.0	0.0	0.0	0.0	0.0
Arrears <=3.0 payments	0.0	0.0	0.0	2.1	0.0
Arrears >3.0 payments	0.0	0.0	0.0	0.4	0.0
Mortgage characteristics (%)					
Buy-to-let	100	100	100	74.4	100
Interest-only	95.3	93.4	94.6	73.7	95.2

Pool statistics are calculated by Fitch and may differ from figures reported in the offering circular. PM29 was analysed under current criteria whereas all comparators were analysed under the criteria in effect at the relevant closing date. PM29 WAFF and WARR shown are based on the stressed dynamic asset pool as described below.
Source: Fitch Ratings, transaction documents

Sector Risks: Additional Perspective

Key Sector Risks

Sector or asset outlook	Fitch's 2023 asset outlook for the UK buy-to-let sector is deteriorating. Fitch expects mortgage arrears to increase across all UK RMBS sectors through 2023 as inflation leads to falling real wages while rising interest rates will result in increased monthly instalments for borrowers (see EMEA Structured Finance Asset Performance Outlook Deteriorating for All Sectors).
Macro or sector risks	The world economy is now likely to grow a bit faster (0.1pp) in 2023 than Fitch Ratings expected in its June Global Economic Outlook (GEO) but the deepening slump in China's property market is casting a shadow over global growth prospects, just as monetary tightening increasingly weighs on the demand outlook in the US and Europe. Fitch has updated its UK GDP forecast for 2023 and we now expect UK GDP to grow by 0.2% in 2023, though a mild recession is still expected in 2H23. Tepid growth of 0.7% is expected in 2024, as falling inflation eases the squeeze on real household incomes - see Global Economic Outlook (September 2023).
Relevant research	For further considerations on the UK mortgage market trends, see Global Housing and Mortgage Outlook – 2023 and UK Mortgage Market Index: September 2023.

Source: Fitch Ratings

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 Stable Outlook. Paragon restarted its mortgage origination in 2010, after ceasing new origination during the global financial crisis, with an updated lending policy, strategy and new products.

Paragon is a deposit-taking institution authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. The 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 foreclosure frequencies. Fitch considers that Paragon's origination and underwriting practices are in line with those of a typical UK mortgage lender with market expertise, financial stability and relevant management experience.

As part of the analysis, Fitch performed an operational review of the originator to assess its origination, underwriting, and servicing capabilities (see Appendix 1).

Paragon sources its applications primarily though the intermediary market. A large proportion of its originations are for professional landlords with four or more properties, with the average borrower having a portfolio of about 10.

Fitch considers Paragon's underwriting procedures, processes and systems to be appropriate 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 typical BTL lender. Paragon also demonstrates strong book-level performance history in terms of arrears.

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. Reliance on intermediary networks for sourcing of assets, albeit with appropriate controls. 3. Concentration of lending in the BTL sector leading to limited diversification in Paragon's lending book.

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 a 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.

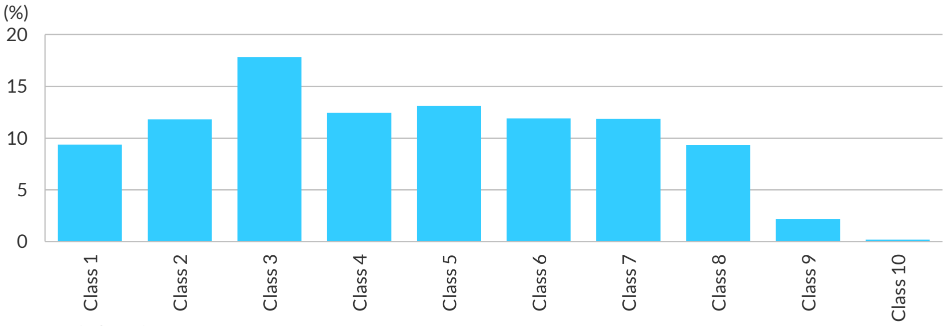
Paragon sends a surveyor with a property agent to the property to inform the tenant that henceforth their rent payments should be redirected to the ROR, who forwards it to Paragon, instead of the landlord. No monies from that point are allowed to be passed on to the borrower. Any payments received in 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 demonstrates strong affordability with loans clustered around Fitch's lower ICR buckets. A total of 64.8% of the pool is in buckets one-to-five.

ICR Distribution

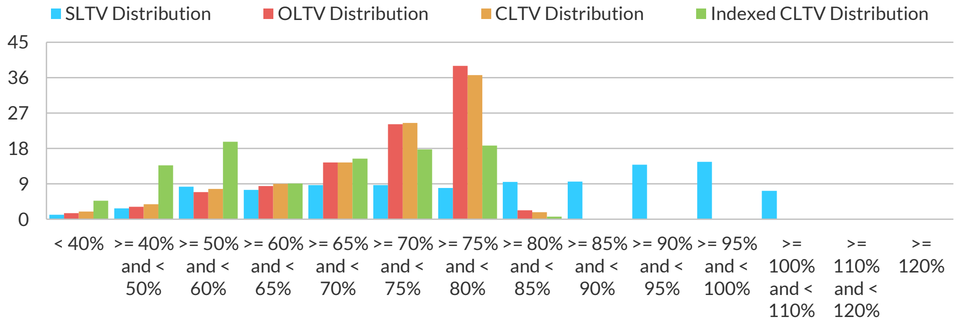


Source: Fitch Ratings, PM29

Loan-to-Value Ratios

The OLTV of the portfolio is reduced from the previous Paragon Mortgages transaction as shown in the transaction comparison table earlier in the report.

LTV Distribution



Source: Fitch Ratings, PM29

Borrower Profile

Limited Companies

About 58.6% 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, 95.3% are interest-only, which is typically the loan type favoured by BTL borrowers.

Repayment Type

	Interest-only	Repayment
Repayment type (%)	95.3	4.7

Source: Fitch Ratings, PM 29

Interest Rate Types

The pool comprises primarily loans that pay a fixed rate before switching to Paragon's SVR or a discounted SVR. There are some loans (17.5%) currently paying a rate linked to Paragon's SVR with a significant discount that will later revert to the lender's full SVR (or SVR with a much smaller discount), these borrowers are able to change product with no early repayment charges.

Property Type

Flats and single-property houses/bungalows comprise 17.3% and 29.1% of the pool, respectively. About 53.4% are either houses in multiple occupation (HMO) or are multi-unit blocks (MUB) both of these product types are classified as 'multifamily'.

Flats and multifamily properties attract a higher foreclosed sale adjustment than houses under Fitch's criteria. About 8.0% of the pool is subject to Fitch's illiquid property adjustment.

Property Type

Initial pool	(%)
Flats	17.3
Houses or bungalows	29.1
Multifamily house	53.4
Other	0.2

Source: Fitch Ratings, PM29

Multifamily Homes

A total of 53.4% of the pool is made up of multifamily homes, and 39.7% of the total pool comprises HMO properties and 17.0% MUBs. There is a 3.4% crossover of MUBs which are made up of HMOs. Paragon Mortgages No.28 had approximately 20% of each property type.

MUBs function similarly to standard BTL in terms of valuation and unit size and also can typically be split into individual units if necessary. No additional adjustments are applied in Fitch's analysis for these property types.

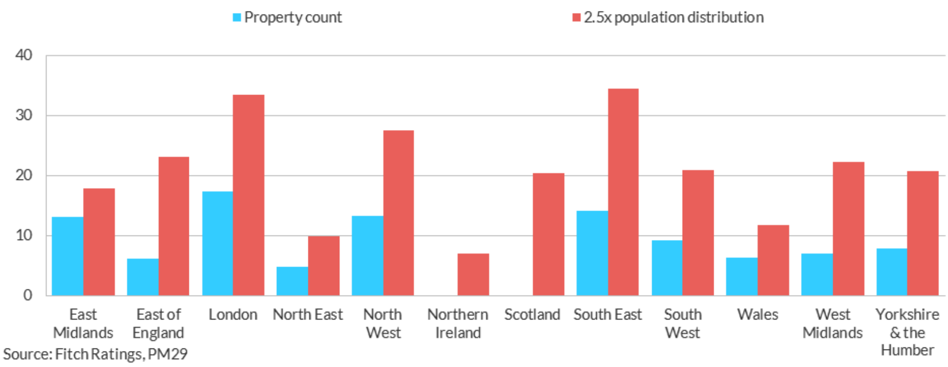
The subset of HMO properties in the pool have a greater WA ICR than the pool as a whole, as is typical within the market as these properties tend to generate greater yields through letting to multiple tenants rather than one family unit. Lenders, including Paragon, typically require greater interest coverage when advancing a mortgage backed by an HMO property due to greater costs faced from, for example, maintenance and licensing.

Fitch has not applied any additional stress to these properties in its analysis. Paragon take a market standard approach to HMO lending and no additional benefit in terms of asset levels is achieved from the greater ICRs of HMOs as dynamic asset levels are used for which we assume the minimum ICR per the revolving conditions.

Geographical Distribution

There is no geographical concentration as defined in Fitch's *UK RMBS Rating Criteria*. A total of 31.8% of the pool (by property count) is in London or South East England.

Geographic Distribution



Source: Fitch Ratings, PM29

Concentration Risk

Potential concentration risks stem from Paragon's business model, which targets professional landlords who typically have multiple BTL loans with Paragon. As a result, there is a large proportion of borrowers in the pool with more than one property. Fitch assessed the level of borrower concentration in the pool and determined this not to be a material risk factor.

Revolving Period

A five-year revolving period allows new assets to be added to the pool after closing. During this period there is no amortisation of the notes with redemption receipts instead used to purchase new assets. There is no limit on the volume of new assets, theoretically the whole pool could be replaced with new loans.

Fitch has stressed several asset characteristics to capture the impact of the potential deterioration in the pool during the revolving period. Where there are restrictions on the concentration of loans (substitution conditions) containing a feature relevant to Fitch's analysis, this limit has been considered to determine the asset quality at the end of the revolving period.

In particular, Fitch stressed the WA CLTV of the pool to the limit of 75%. The interest coverage ratio of the pool has been stressed to the 125% limit (based on the originator's calculation of ICR) using a stressed rate of either 5.5% which is the current minimum permissible under Paragon's criteria or 4%, which was Paragon's previous minimum permissible stressed rate for five-year fixed-period mortgages. These stressed rates have been applied in a 65%/35% split, respectively, given the origination dates of the current pool and a conservative assumption of the stressed rate of loans that could be added. An additional 1.5% of arrears has been assumed in the three-to-six-months arrears bucket to account for potential pool deterioration during the revolving period, without the 3% limit being breached, an event which would stop the pool from revolving further.

Fitch has made its adjustments to derive portfolio foreclosure and recovery rates as a result of the revolving period at the loan level. Fitch assumed that Paragon maintains consistent lending standards, policies and distribution throughout the revolving period and so made no further adjustment for any geographic concentration or overall deterioration in lending quality. Paragon is an established lender in the market and has maintained consistent standards over a number of years.

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.

ResiGlobal Model Output

Rating level	WAFF (%)	WARR (%)
AAAsf	24.4	46.5
AAsf	19.7	52.5
Asf	15.0	58.4
BBBsf	10.3	64.1
BBsf	7.4	67.7
Bsf	4.2	71.1

Note: the above is based on the stressed dynamic levels asset pool.
Source: Fitch Ratings

Cash Flow Analysis

The structure consists of four rated notes. The transaction is fully revolving for the first five years subject to triggers. After the revolving period, the notes will amortise sequentially.

Pre-Enforcement Priority of Payments (Simplified)

	Revenue priority of payments	Principal priority of payments
1	Senior fees	Principal applied to meet senior fees and note interest shortfalls[a]
2	Hedging payments	Further advances
3	Class A interest	Additional mortgages/retained principal
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	

Pre-Enforcement Priority of Payments (Simplified)

	Revenue priority of payments	Principal priority of payments
17	On or after the step-up date or final redemption date, applied as principal	
18	Class Z interest	
18	Class S interest and principal	
19	Class SVFN interest and principal	

[a] Subject to PDL conditions, please refer to the Principal to Pay Interest section.
Source: Fitch Ratings, PM29

Step-Up in Margin on Notes

From the interest payment date (IPD) in December 2028, the issuer has the option to redeem 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.

Step-Up Margins

Class	Initial margin (%)	Step-up margin (%)
Class A	SONIA + 1.20	SONIA + 1.80
Class B	SONIA + 1.90	SONIA + 2.85
Class C	SONIA + 2.75	SONIA + 3.75
Class D	SONIA + 3.80	SONIA + 4.80

Source: Fitch Ratings, PM29

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;
- a 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 in relation to the issuer.

Optional Redemption

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

- a mandatory redemption in whole on the legal maturity date;
- a mandatory redemption in whole pursuant to a portfolio purchase;
- an 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;
- an optional redemption in whole exercisable by the issuer on or after the step-up date; and
- an optional redemption in whole exercisable by the issuer for tax reasons.

Credit Enhancement

Subordination

CE is provided by notes subordinate to each respective class. Neither the general reserve fund nor liquidity reserve fund covers for credit losses via principal deficiency ledgers (PDL) and therefore are not included as part of credit enhancement.

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 below.

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. The LRF is used ahead of the general reserve fund (GRF) described below. Excess amounts are released to revenue.

General Reserve Fund

The structure benefits from a 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 and will amortise with this target, but will stop amortising if there is a breach of any of the required amount triggers below. The availability to cover C and D note interest is subject to there being no PDL on these notes. Excess amounts are released to revenue.

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:

- the current balance of mortgages three months-plus in arrears rises to more than 3.0%; and
- the aggregate amount debited to the PDL in respect of property sales shortfall since closing exceeds 1.0% of the initial principal balance of the notes (excluding class S and class S VFN).

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, 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 2.5%, as calculated by the administrator.

On each IPD, the servicer will assess the revenue ledger and an assumption of the mortgages that are expected to be sold to the issuer in the next quarter. The servicer estimates the value of interest rate shortfalls (compared to SONIA+2.5% substitution condition) and, provided there is sufficient excess spread, the mortgage MRF discretionary ledger will be increased by this amount.

The mortgage MRF ledger records the difference in value between the weighted average rate on the existing portfolio and SONIA+2.5% for each month until the maturity date based on a series of assumptions (see below). This is funded each time a loan is sold to the issuer from the discretionary fund ledger to bring it to required level. Each IPD the appropriate amount is transferred to revenue.

The assumptions for the mortgage MRF are as follows.

- No redemptions
- Constant SONIA rate
- 0% CPR
- All loans revert to their reversionary rate

Though the top-up of the discretionary fund ledger relies on excess revenue receipts to be topped up at a junior position in the revenue waterfall, which may not be available, it is a substitution criteria condition that the fund be at target. If it is not at target then the new loans cannot be added.

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 at GBP750,000, 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. The conversion margin reserve fund is similarly topped up at a junior waterfall position however without sufficient funding of this reserve, no product switches are allowed to take place.

Further Advances and the Mandatory Further Advance Pre-Funding Reserve

Further advances in the mortgage pool take the form of either mandatory or discretionary further advances.

Mandatory Further Advances (MFA) will be prefunded first by using the MFA Pre-Funding Reserve Ledger and secondly from the principal moneys from the principal priorities of payment. These are related to any advances retained pending on the completion of construction or refurbishment. At closing the MFA Pre-Funding Reserve Ledger was funded at GBP786,950.

Paragon may make a discretionary further advance subject to certain conditions including:

- there is no PDL balance on the preceding interest payment date;
- 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 3%;
- the borrower is not in breach of the mortgage conditions;
- the CLTV did not exceed 75% on the immediately preceding principal determination date;
- the current balance of the 20 largest borrowers did not exceed GBP85 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 to D notes, to the extent revenue (including the GRF and LRF) is insufficient to pay these items. For classes B, C and D this is subject to them either having less than 10% PDL balance or being the most senior class outstanding.

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 or a rate linked to Paragon's SVR.

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 (initially 1.35%), based on a fixed swap notional assuming a 0% prepayment (CPR) schedule, to the swap counterparty and receives daily compounded SONIA.

Additional fixed-rate loans added to the transaction, through an additional loan added to the pool, 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. The maximum WA swap rate is 4%. New swap counterparties may be used for additional swaps as long as they meet the required ratings.

At the end of their respective fixed rate period the fixed rate loans will revert to Paragon's SVR (some may have a discount to this rate). 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 peers. 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 current margin (WA of SVR and discounted SVR) over daily compounded SONIA.

Modelling Approach

Fitch has modelled the transaction from the end of the substitution/revolving period. This is the most conservative approach as given the transaction is fully revolving there will be no increased credit enhancement at the end of the revolving period if the notes have not amortised at all. Meanwhile, there is a possibility for the asset pool to have deteriorated, the swap rate faced to have increased and the asset margins to have reduced.

This approach means the step-up margins are paid immediately in Fitch's cash flow modelling.

For the amortisation schedule and the portion of fixed rate loans we use the static pool as a proxy for these at the end of the revolving period. To match this, Fitch used the closing notional swap schedule as a proxy from the end of the revolving period.

We assume the minimum WA fixed rate required when considering the portion of SVR loans in order for the minimum post-swap margin condition to be met as of the end of the revolving period (from this point this WA margin will increase through time as more loans roll onto an SVR rate). We assume the max WA swap rate per the revolving/product switch conditions.

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-, middle- and back-loaded default curve scenarios. Fitch adjusts its scenario assumptions to take account of all the relevant features of each transaction structure.

Rating Sensitivities

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

The transaction's performance may be affected by changes in market conditions and the economic environment. Weakening economic performance is strongly correlated to increasing levels of delinquencies and defaults that could reduce the CE available to the notes. In addition, unexpected 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 a transaction's base-case FF and RR assumptions. For example, a 15% WAFF increase and 15% WARR decrease would result in a model implied downgrade of up to two notches on the class A and C notes, three notches on the class B notes and one notch on the class D notes.

Rating Sensitivity to Increased Defaults and Reduced Recoveries

	Class A	Class B	Class C	Class D
Original rating	AAAsf	AAsf	A-sf	B+sf
15% increase in default rates	AA+sf	A+sf	BBB+sf	B+sf
30% decrease in default rates	AAsf	A+sf	BBB+sf	Bsf
15% decrease in recovery rates	AA+sf	A+sf	BBB+sf	B-sf
30% decrease in recovery rates	AAsf	Asf	BBBsf	B-sf
15% increase in default rates and decrease in recovery rates	AAsf	Asf	BBBsf	Bsf
30% increase in default rates and decrease in recovery rates	A+sf	BBB+sf	BB+sf	≤B-sf

Source: Fitch Ratings

The Rating Sensitivities 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 two notches on the class B and C notes, and four notches on the class D. Class A is already rated the maximum AAAsf.

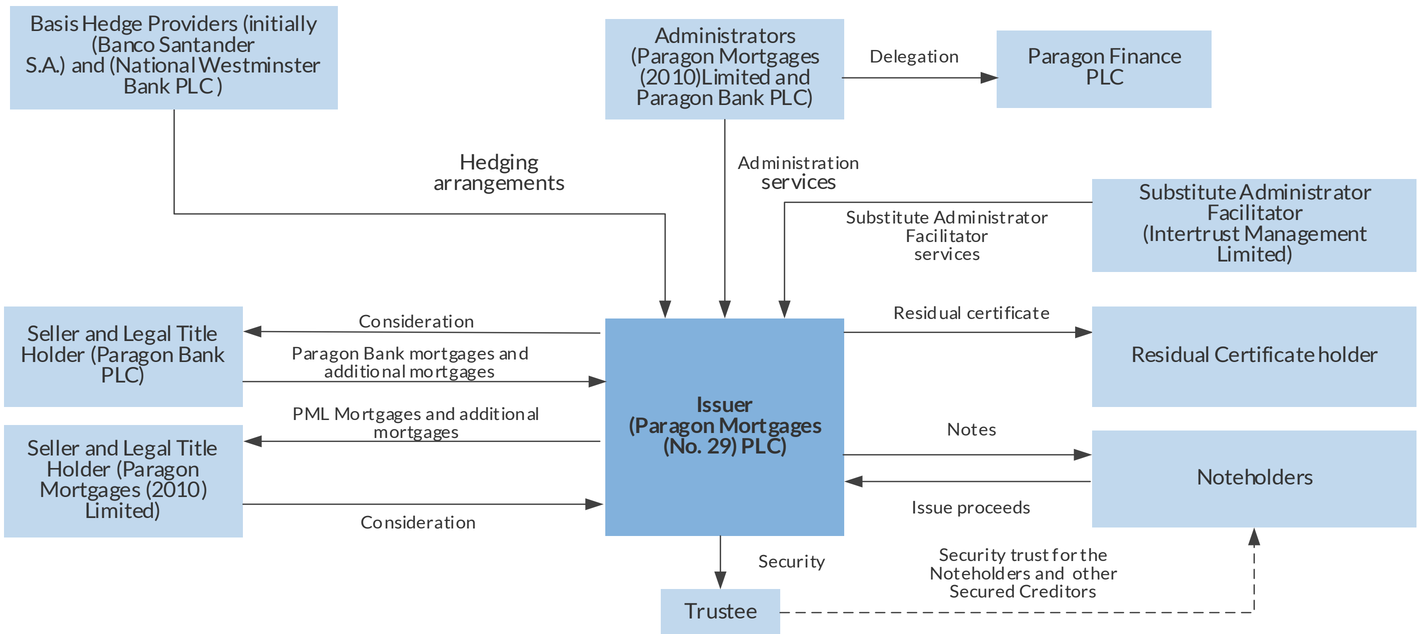
Rating Sensitivity to Reduced Defaults and Increased Recoveries

	Class A	Class B	Class C	Class D
Original rating	AAAsf	AA-sf	A-sf	Bsf
15% decrease in default rates and increase in recovery rates	AAAsf	AA+sf	A+sf	BB+sf

Source: Fitch Ratings

Transaction Structure

Structure Diagram



Source: Fitch Ratings, PM29

Legal Framework

On the closing date, the sellers 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 sellers (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 sellers 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 arrears management. The administrator must, 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 continues 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 extends the final maturity date beyond 30 November 2053.
- 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 GBP15 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.
- 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.

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 has a revolving period of five years, during which the seller is permitted to sell, and the issuer entitled to purchase, additional loans and their related security. Any additional loans must meet the replenishment criteria below to be included in the portfolio.

- The relevant further sale date falls on a date prior to the step-up date.
- No seller asset warranty is breached in respect of additional mortgages and the seller is not in breach of its obligation to repurchase mortgages which are in breach of any seller asset warranty.
- Following the addition of the additional mortgages the WA CLTV does not exceed 75.0%.
- The WA interest rate applicable to the current balance of all mortgages, after taking into account hedge agreements and converted mortgage release amounts, is not less than compounded daily SONIA (or the alternative base rate) + 2.5%, or if the WA interest rate is less than compounded daily SONIA (or the alternative base rate) + 2.5%, the amount standing to the mortgage margin reserve fund is equal to or greater than its required amount.
- The amount standing to the credit of the MFA pre-funding reserve ledger or the principal ledger is sufficient to cover mandatory further advances.
- The administrator will within 30 days arrange for the issuer to hedge the fixed floating interest rate exposure for additional fixed-rate loans.
- Following the addition of the additional mortgages the proportion of loans with a CLTV of more than 77.0% will not exceed 20.0%.
- Following the addition of the additional mortgages the proportion, by current balance, of loans in London will not exceed 40.0%.
- Following the addition of the additional mortgages the proportion, by current balance, of loans in South East England will not exceed 40.0%.
- Following the addition of the additional mortgages the proportion, by current balance, of loans in a single geographic region other than London and South East England will not exceed 20.0%;
- following the addition of the additional mortgages the proportion, by current balance, of loans whose related properties are classed as HMOs will not exceed 40.0%.
- Following the addition of the additional mortgages the WA rental cover is not less than 125.0%.
- The remaining fixed-rate period for a fixed-rate mortgage will not be longer than 5.5 years as at the relevant further sale date.
- The reversionary interest rate of the additional mortgage is the relevant legal title holder's SVR.
- No further sale period termination event has occurred or would occur as a result of the sale and purchase of the relevant additional mortgages.
- No additional mortgage to be purchased is more than one month in arrears.

- As at the relevant further sale date, more than 50.0% of the residual certificates are held by a Paragon Banking Group entity.
- There was no debit balance on the PDL on the preceding IPD.
- On such a further sale date, the WA swap rate as calculated by the administrator does not exceed 4.0%.
- On each further sale date, the product of the WA time in years to the end of the fixed-rate period for fixed-rate mortgages and the current balance of fixed-rate mortgages, including additional fixed-rate mortgages, divided by the current balance of all mortgages in the pool, does not exceed 5.25.
- On each further sale date, the notional balance of the swap(s) must not exceed or be less than GBP15 million of the fixed-rate balance including additional fixed-rate mortgages.
- A Paragon Banking Group company is the administrator and no administrator termination event has occurred in respect of any Paragon Banking Group company.

Fitch considers the replenishment criteria sufficient to mitigate the potential migration of the portfolio's credit profile.

Fitch stressed the default model output to take account of the revolving period (see *Asset Analysis* for more details).

Pass-Through Trigger Events

Principal received can be used to purchase additional mortgages or be retained on the retained principal ledger (subject to 10% of current balance limit) during the revolving period until a pass-through trigger event occurs. These events are as follows:

- an event of default;
- an insolvency event regarding the sellers;
- an unremedied breach of the transaction documents by the sellers;
- on any IPD, the aggregate amount debited to the PDL in respect of enforcement of mortgages since closing exceeds 1.0% of the initial principal amount of the class A to D and Z notes;
- the amount standing to the credit of the GRF is less than the GRF required amount;
- the amount standing to the credit of the LRF is less than the LRF required amount; and
- on any principal determination date, the current balance of mortgages more than three months in arrears is above 3.0%.

After a pass-through trigger event, the revolving period will cease and available principal will be used sequentially to redeem each note in full on a pass-through basis.

Retained Principal Ledger

The retained principal ledger records the amount of principal retained at an IPD during the revolving period in order to be used to purchase additional mortgages in future. The maximum amount of cash that can be retained is 10% of the portfolio balance on the relevant principal determination date, any principal not retained or used to purchase additional assets will pay down the notes.

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.

Set-Off Risk

No loan is in the closing pool or can be sold to the issuer in future where the borrower has more than GBP85,000 in savings with Paragon Bank, this is included as part of the representations and warranties. This mitigates any potential set-off loss. Any amounts below GBP85,000 are covered under the UK's statutory deposit insurance scheme.

Rating Confirmations

The transaction documentation features language that the additional loan conditions may be waived subject to rating agency confirmation this would not lead to a withdrawal or downgrade of the assigned ratings.

Fitch is not a transaction party and has no obligation to provide rating confirmations. We will continue to exercise our discretion in choosing to issue a rating confirmation or otherwise. Where relevant to our ratings, we prefer to issue public commentary on the rating impact of the change. Fitch's approach to and concerns regarding rating confirmation are highlighted in Rating Confirmations in Structured Finance and Covered Bonds.

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. Dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Impact of Banking Act 2009 and Related Secondary Legislation

The Banking Act 2009 and related secondary legislation (the Act) confers wide-ranging powers on the UK financial authorities to deal with the failure (or likely failure) of certain UK incorporated entities, including authorised deposit-taking institutions and investment firms. The greatest element of uncertainty arises from the provisions in the Act that empower the authorities to potentially override the ongoing contractual obligations of a financial institution (or a related group company) in a structured finance transaction. This could have potential implications for the enforceability of contractual or servicing arrangements within structured finance transactions.

Fitch does not expect the Act to affect ratings for structured finance transactions. This is based on a number of factors, including the government's guidance as to how and in what circumstances the authorities will use their powers under the Act which provides for certain safeguards applicable to structured finance arrangements.

Nevertheless, Fitch will continue to monitor future developments with respect to the Act to determine whether there could be any rating impact to the transaction.

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 type	Counterparty name	Ratings	Minimum ratings and remedial actions under documents	Relevant mitigants/analytical adjustments
Issuer account bank	HSBC Bank plc	AA-/Stable/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+/Stable/F1 A+/Stable/F1	If rated at least BBB or F2, replacement or guarantee within 60 calendar days of downgrade below both minimum ratings.	No adjustment. Declaration of trust and daily transfer of funds mitigates commingling risk.
Initial swap provider	Banco Santander, S.A. National Westminster Bank Plc Note: Additional parties may provide interest rate swaps and will be subject to same rating/collateral requirements.	A-/Stable/F2 (derivative counterparty rating: A) A+/Stable/F1	Minimum derivative counterparty rating of BBB- or Short-Term IDR of F3, replacement or guarantee required below these ratings (in 60 days for NatWest and 30 days for Santander); collateral posting required within 14 calendar days when downgraded below A of F1 (or replacement or guarantee).	No adjustment. Minimum ratings and remedial actions in line with criteria. NatWest are not required to take any remedial action if a collateral account has not been set up and communicated to them. Fitch understands collateral accounts have been set up as of the closing date. In its rating analysis Fitch has assumed that these accounts remain open and that the parties do not seek to avoid taking remedial action due to this provision.
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, PM29

Criteria Application, Model and Data Adequacy

Criteria Application

See page 2 for the list of Applicable Criteria.

Fitch applies the *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 IDR 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 (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.

Fitch conducted a review of a small targeted sample of Paragon's origination files and found the information contained in the reviewed files to be adequately consistent with the originator's policies and practices, and the other information provided to the agency about the asset portfolio.

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 www.fitchratings.com.

Appendix 1: Origination and Servicing

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%-145% at higher of pay rate or stress rate, dependent on borrower and property type
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 5.5%.
Source: Fitch Ratings, Paragon

Company Overview

Paragon Bank is a subsidiary of the Paragon Banking Group plc (BBB+/Stable/F2), which provides various financial products to consumers. Paragon specialises in the origination of BTL products and has originated 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.

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 organised by geographic area and also ensures they have appropriate regulatory permissions.

All potential new intermediaries are required to submit their application to join Paragon's panel. Once submitted Paragon will check their FCA registration and permissions whilst also completing financial crime checks and searching for any FCA disciplinaries. Paragon's financial crime team undertakes broker reviews if have 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 (39 staff members, up from 24 at the time of Paragon Mortgages No.28), non-portfolio (two staff members, previously seven) and mortgage support (14 staff members, previously nine underwriting support staff members). The changing numbers in the teams is a result of the development of the BTL market in relation to portfolio landlords.

All applications are reviewed by an underwriter prior to being run through the automated decision-making system to obtain a score. The score given dictates the level of further information required in order to fully underwrite the application if it is accepted. 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 generates workflow that automatically appears in the underwriters work queue for action at an appropriate date. All correspondence is also logged on the system. Once the final piece of required information has been obtained by the underwriter the system is updated to reflect this. The ICR is calculated within the system for non-portfolio BTL cases. Once the underwriter is satisfied with the application then a mortgage offer is produced. If the underwriter does not hold an appropriate mandate to authorize the offer then the case is passed on to an appropriate mandate holder to do so.

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).

Authorisation Levels

A mandate structure is in place that 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. Staffs 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 (CC)	4,000,000+	75+	1,000,000+	75+	8,000,000+
2	4,000,000	75	1,000,000	75	8,000,000
3	1,000,000	75	500,000	75	3,000,000
4	600,000	75	300,000	75	1,500,000
5	300,000	75	200,000	75	1,125,000
6	150,000	75	100,000	75	375,000

Source: Fitch Ratings, Paragon

CC=credit committee (loans not covered by other mandates)

Fraud Prevention

Paragon use 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 11 staff is responsible for working referrals on a timely basis.

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 also 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 control review results are presented to senior management on a monthly basis.

Valuations

Full security assessments and valuation reports are required for each loan in core BTL. The valuation must be conducted by either a Paragon employed surveyor or a member of Paragon's panel of surveyors. Paragon employs 28 surveyors, who are responsible for around 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 endeavour 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 an automated valuation model.

Valuation reports are valid for three months. If the valuation is older than four months then a Paragon surveyor has the ability to review the valuation and if appropriate extend it to a maximum of three months. If the valuation is more than 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. 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 four teams (currently 144 FTE):

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 35 FTE (including team leads and managers). The team is also responsible for pre-delinquency contact when considered appropriate.

Telephone Collections: Responsible for initiating telephone and letter contact with borrowers who have missed payments, and for making arrangements to clear arrears.

Portfolio Management: More experienced staff who work on more problematic and larger borrowings – typically of greater than GBP1 million where more than five properties are involved. Within this the recoveries team is responsible for assessing third party recovery claims and dealing with insolvent borrowers.

Law of Property Act Receiver

If the borrower is two months in arrears and there is no realistic plan to improve the situation in place then Paragon may appoint a ROR on the entire portfolio of the borrower. No court approval is required for this. 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. 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 under their control each quarter to decide whether to continue letting or whether to sell it. The ROR has personal responsibility to act in the best interests of the lender and the landlord and as such has no obligation to return the property to the landlord once the mortgage becomes current. Around one-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. Around one-third of the properties are sold and the other third remain in progress.

Paragon uses ROR through its subsidiary Redbrick Survey and Valuation Limited. This improves the arrears performance since any excess rent can be used to clear the arrears balance. ROR is likely used more frequently than by peers in the BTL market.

Appendix 2: ESG Relevance Score

FitchRatings

Paragon Mortgages (No.29) PLC

SF ESG Navigator
RMBS

Credit-Relevant ESG Derivation

Paragon Mortgages (No.29) PLC has 7 ESG potential rating drivers

- Paragon Mortgages (No.29) PLC has exposure to accessibility to affordable housing but this has very low impact on the rating.
- Paragon Mortgages (No.29) 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.29) 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.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	7	issues	3
not a rating driver	3	issues	2
	4	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	2	Regulatory risks, fines, or compliance costs related to building emissions and related reporting standards (including energy consumption)	Asset Quality; Surveillance	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) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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 relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.

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 United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

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.

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