RMBS/UK
Presale Report

Paragon Mortgages (No. 8) PLC

Expected Ratings*

Class	Amount (m)	Final Maturity	Rating	CE (%)
A1 GBP Equivalent 238m				
A1a	GBP [ ]	2035	AAA	11.90
A1b	EUR[ ]	2035	AAA	11.90
A2 GBP Equivalent 527m				
A2a	GBP [ ]	2035	AAA	11.90
A2b	EUR[ ]	2035	AAA	11.90
A2c	USD [ ]	2035	AAA	11.90
B GBP Equivalent 85m				
B1a	GBP [ ]	2044	A	1.90
B1b	EUR [ ]	2044	A	1.90

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* Expected ratings do not reflect final ratings and are based on provisional pool information provided by the issuer as of 4 October 2004.

■ Summary

This GBP850 million equivalent transaction is a securitisation of residential mortgages originated in the UK. Fitch Ratings ("Fitch") has assigned expected ratings to the notes to be issued by Paragon Mortgages (No. 8) PLC (the "issuer" or "PM8") as indicated at left.

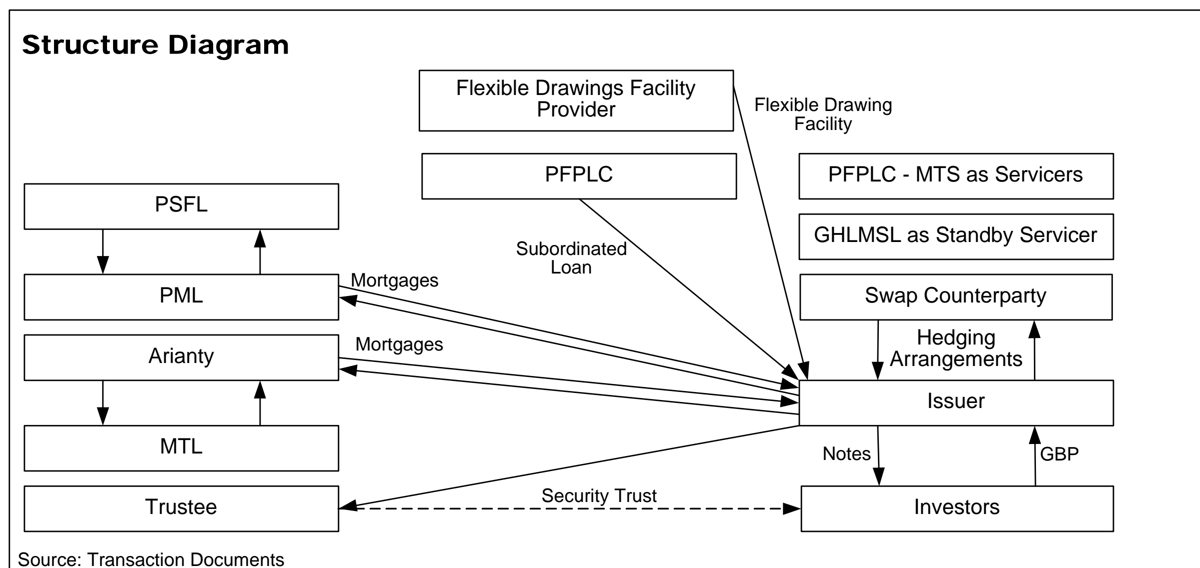
The expected ratings are based on the quality of the collateral, available credit enhancement, the underwriting processes of Paragon Mortgages Limited ("PML") and Mortgage Trust Limited ("MTL"), as well as the servicing capabilities of Paragon Finance PLC ("PFPLC") in relation to the PML mortgages and Mortgage Trust Services plc ("MTS") in relation to the Mortgage Trust mortgages. All four entities are wholly owned subsidiaries of The Paragon Group of Companies ("the Group"). The expected ratings are also based on the capabilities of GHL Mortgage Services Limited ("GHLMSL") as stand-by administrator and the sound legal structure of the transaction. Credit enhancement for the class A notes will be provided by the subordination of the class B notes (10%) and a reserve fund of 1.90%, which will be fully funded at closing. The reserve fund will build up to 2.50% on the occurrence of certain arrears triggers.

Approximately 83.06% of the loans of the Provisional Mortgage Pool have been originated by PML, while the remaining 16.94% are mortgages originated by MTL. Some 14.45% of the mortgage trust will consist of loans originally part of the trust property for Paragon No. 2 ("PM2") and originated by PML, while 33.25% will comprise loans originally part of Paragon No. 3 ("PM3"), also originated by PML. PM2 was called in September 2004 and PM3 will be called in October 2004.

In the context of residential lending, PML specialises in the origination of buy-to-let loans to "professional" landlords, defined as borrowers with at least 12 months' experience managing at least three rental properties. MTL specialises in lending to "private investor" landlords, with between one and five properties in their portfolio. Some 98.65% of the loans in the reference portfolio are secured on investment properties belonging to such borrowers and the remaining 1.35% are on owner-occupied properties.

The Group offers an array of financial products, ranging from personal, retail point of sale and auto loans to prime residential mortgages. This is the Group's eighth transaction in the Paragon Mortgages series.

To determine appropriate credit enhancement levels, Fitch analysed the collateral using its UK Residential Mortgage Default model as a benchmark and adjusted it to account for additional risks associated with buy-to-let lending (see research *"UK Residential Mortgage Default Model II"* of 13 October 2000, available on *www.fitchratings.com)*. Fitch also modelled the cash flow contribution from excess spread using its European RMBS cash flow model (see research "*European RMBS Cash Flow Criteria*" of 20 December 2002 available on www.fitchratings.com) using the default and recovery assumptions indicated by the default model. The cash flow test showed that each class of rated notes could withstand loan losses at a level corresponding to the related stress scenario without incurring any ultimate principal loss or interest shortfalls on interest payment dates.



Special Reports

The following special reports provide additional detail on the Fitch rating approach to, and performance of, the RMBS market and both are available on www.fitchratings.com:

- *"UK Residential Mortgage Default Model II"*
- *"A Guide to European RMBS Cash Flow Analysis"*
- *"Rent Review 2004 – An Update on the UK Buy-to-Let Market"*

Credit Committee Highlights

- Some 98.65% of the portfolio consists of buy-to-let loans. Fitch considers loans on buy-to-let properties to be inherently more susceptible to default than those secured on an owner-occupied property, simply because the borrower is more likely to default on a loan secured on an investment property than on one secured on their own home. The base default probability for these loans is therefore increased within Fitch's default analysis. For additional information about Fitch's view on this market in the UK please see "*Rent Review 2004 – An Update on the UK Buy-to-Let Market*" dated 20 January 2004 and available at www.fitchratings.com. However, in mitigation, most of the Paragon borrowers (83.06% of the portfolio) are considered professional landlords, with a proven history of maintaining a portfolio of investment properties. The 16.94% Mortgage Trust mortgages are viewed as private investor landlords making a long-term investment in the property market.

- There is a degree of "granularity" in the pool owing to clusters of properties in certain districts favoured by professional and emerging professional landlords.

- It is possible that a single professional borrower could accumulate upwards of 20 mortgage loans from PML, each backed by a property and a corresponding stream of rental income, while in MT the emerging professional borrower usually has between two and five properties. Whilst this represents an increased exposure to a single obligor, the normal evolution of an investment portfolio over time means that all its constituent loans are unlikely to find themselves in a single securitisation issue.

- As a result of its preference to work with professional landlords, Paragon has a keen focus on the credit profile of the borrower and their demonstrated ability to manage a portfolio of properties. The underwriting methodology therefore begins with a full assessment of the borrowers underlying credit position before a decision to lend, or not, is made, rather than relying solely on a rent to interest coverage ratio. Only when Paragon is comfortable with the borrowers credit profile is an assessment of each property made based on a combination of LTV analysis (max 85%) and rental interest coverage ratio ("ICR") (min 130% except 120% in limited circumstances). For originations since 19 March 2004, representing 35% of the Provisional Pool, Paragon's minimum ICR for a loan was calculated using the Paragon reference rate at the time of underwriting. The PM2, PM3 and MTL ICR calculations were based on either the fixed rate applicable to the mortgage or LIBOR +1.5%. The Paragon reference rate is a rate reviewed on a regular basis taking into account movements in base rates and LIBOR.

Key Information

Structure

Issuer: Paragon Mortgages No 8 PLC ("PM8").

Lead Manager: Deutsche Bank, JPMorgan

Originators: Paragon Mortgages Limited ("PML") and Mortgage Trust Limited ("MTL")

Trustee: Citicorp Trustee Company Limited

Paying Agent: Citibank N.A. ('AA+/F1+')

Mortgage Administrator & Servicer: Paragon Finance PLC (PML) and Mortgage Trust Services plc (MTS)

Stand-by Mortgage Administrator: GHL Mortgage Services Limited ("GHLMSL")

Cash/Bond Administrator: Paragon Finance PLC

Basis Hedge Provider: JPMorgan Chase Bank ('A+/F1')

Currency Swap Providers: HSBC ('AA/F1+')

Account Bank: National Westminster Bank ('AA+/ F1+') for PML and Barclays Bank PLC ('AA+/ F1+') for MT

Interest Payments: Quarterly in arrears for class A and B notes, starting on 15 April 2005 and thereafter on the 15th day of July, October, January and April in each year.

Legal Maturity: For the A notes, April 2035; for the B notes, April 2044

Optional Redemption: In October 2008 or any payment date thereafter, or clean-up call when 20% or less of the original principal balance is outstanding.

Provisional Pool Characteristics

Based on provisional pool dated August 2004 figures are inclusive of maximum drawable balances for flexible loans and will consequently differ marginally from those in the Offering Circular

Total Amount: approx GBP717.9 million (8,161 loans)

WA Indexed Current LTV*: 69.52%

WA Current Interest Rate: 6.21%

WA Remaining Maturity: 236.45 months

WA Seasoning: 24.70 months

Interest-Only Mortgages: 76.52%

* Based on Nationwide regional indices and 50% credit given to upward movements in such indices.

The Paragon reference rate was 5% for the period 19 March 2004 through the 30th of September and has been 6.0% since that date. This rate may sometimes be below the rates that will be charged on the loans, and the ICR, when calculated using the actual loan rate, may result in a ratio below 130% or 120%. However, ICR's based on rates charged on the loans have generally been well above the minimum requirements. Paragon use the ICR calculation as only one element of the underwriting process, a thorough understanding of each borrower's financial position and their experience as a successful landlord being of equal if not of greater importance.

- For the new PML loans, the ICR calculated usingthe actual rate charged is 169%. The MT system does not track initial ICR, however, when calculated based on actual margin over current Libor (which would generally have risen since the origination of the loans), for the MT loans this is 148%. For the PM2 and PM3 loans this is 286%, which is likely a conservative calculation since it is based on the original rent determined at the time of the loan's origination between 1997 and 2002. This leads to a combined average ICR of 221%, providing significant cushion to borrowers for future rate hikes and drops in rents.

- As per the performance graph in Appendix 1, the percentage of loans more than 90 days in arrears plus cumulative losses has consistently been very low for earlier Paragon issuers. Arrears levels for Paragon's overall mortgage portfolio are currently well below those of prime portfolios and the rest of the buy-to-let sector (based on Council of Mortgage Lenders arrears data). The called transactions (PM2 and PM3) originated by PML currently demonstrate low arrears levels, with arrears greater than 30 days at 1.55%. MTL arrears have been slightly higher owing to the borrower characteristics in its target market. Arrears levels increased for Mortgages Trust's First Flexible transactions at the time of the move in servicing functions from Epsom to Solihull in the first half of 2004. However, these arrears are believed to have peaked and are now expected to decrease going forward. Also, as per the graph in Appendix 1, arrears over 90 days for the Paragon 6 transaction, which closed in October of last year, have recently increased significantly from 0.033% to 0.340% between February and August of this year. This increase has resulted from the default of a large portfolio borrower. A receiver of rents has been appointed and the liquidation of the portfolio has begun. Paragon does not expect any losses on these loans and expects the arrears levels to decrease over next quarter.

- Fitch continues to stress the portfolio's default rates beyond those for a prime owner-occupier portfolio at all ratings levels, despite having lower arrears than comparable prime portfolios. This stress addresses the relative youth of, and the lack of a historical track record in the UK buy-to-let sector in general, as well as addressing some concerns surrounding potential oversupply of buy-to-let property, particularly in London and the South East.

- The portfolio consists of 16.94% flexible loans, all of which are originated by MTL. The flexible mortgage product affords borrowers the ability to prepay a portion of their principal balance at any point (monthly, annually, etc) and use the prepaid amount as a line of credit that they can redraw at any point in the future. Some borrowers with interest-only loans may draw on a line of credit limit greater than their original drawdown. In addition, borrowers may take "payment holidays" applying prepaid amounts in lieu of scheduled payments. The general limitations, however, include that if the borrower prepays more than 20% (the "threshold amount") of the scheduled principal balance, a "commitment fee" of 1% per annum will be charged on amounts in excess of the threshold. The borrower may reschedule their loan to avoid such penalties, but the redraw would then not be available. In most cases, and for all newly originated loans, MTL retains the right to change the commitment fee at any time.

- Borrowers of flexible mortgages are entitled to take advantage of their flexible features, including redrawing and payment holidays, which are available to borrowers to the extent that they have prepaid. Fitch believes that if borrowers experience financial distress, some may redraw and postpone payments prior to eventual default, and has adjusted its loss severity assumptions accordingly.

- As the percentage of flexible mortgages in the portfolio has increased from the 4.96% seen at the time of Paragon 7, a redraw facility of 0.50% of the notes issued has been added to the structure. This will provide liquidity should redraw requests by borrowers who have overpaid their loans be greater than loan prepayments and repayments received by the issuer that month. The redraw facility provider will be rated 'F1+'. Upon downgrade, it will be required to be replaced by an 'F1+' rated entity. Upon confirmation of the rating agencies that a lower redraw facility will not have a negative impact on the ratings of the notes, this 0.50% redraw facility size may be lowered post-closing.

- The maximum aggregate principal amount of arrears mortgages which may be purchased as at the date of purchase is GBP13million. This is mitigated though the increased default probability applied to mortgages in arrears.

- Less liquid properties comprise a high percentage of the portfolio, at 20.73%, though this marks a decline from the 25.5% seen for Paragon 7. This risk is mitigated as a proportion of these properties are large dwellings broken down into individual apartments.

- As at closing, approximately 10.6% of the principal raised through the note issuance will be retained in the transaction account and applied on the first payment date towards the purchase of further loans (pre-funding). This retention of funds will result in a lower return than if the funds were invested in higher-yielding mortgages, therefore creating negative carry for the transaction during the first interest period. The first interest payment date is in April 2005.

■ Credit Structure

The financial structure of the transaction is designed to provide differing degrees of credit enhancement to the note tranches. The class A notes are protected firstly by any excess spread, secondly, by the reserve fund (1.90%) and thirdly by the subordination of the junior tranche (10%). The class B tranche is supported firstly by any excess spread and secondly by the reserve fund.

The class A2 notes will receive interest on a *pro rata* basis with the class A1 notes, but prior to enforcement of the security, will only receive principal once the class A1 notes have repaid in full. Upon enforcement of the security, all of the class A notes will be repaid on a *pro rata* basis.

The reserve fund will also be available to cover interest shortfalls and losses, subject to certain restrictions on paying interest on the junior notes (see "Reserve Fund" below). The reserve fund will increase further to 2.5% in the event that a certain level of arrears is exceeded.

Available residual excess spread is used to replenish the reserve fund (if drawn) to its required amount on every payment date before the remainder returns to the originator.

Revenue Priority of Payments

Payments received by PM8 are split into revenue and principal and are, subject to certain exceptions (see "*Principal Used for Senior Interest Liquidity*"), paid via separate waterfalls. All revenue received on the issue (eg borrower interest payments, swap payments and interest earned on cash in the collections accounts prior to the interest payment date) will be applied on each payment date in the following priority of payments;

1. Trustee and substitute servicing fees.
2. Senior Servicer fees.
3. *Pro rata*, amounts due and payable: (i) under the basis and class A1b, A2b and A2c currency swap agreements; and (ii) as interest to the class A noteholders; (iii) interest on the redraw facility.
4. *Pro rata*, amounts due and payable: (i) under the class B1b currency swap agreements; and (ii) as interest to the class B noteholders.
5. VAT to be paid, if any.
6. Amounts applied in extinguishing a debit balance on the PDL.
7. Amounts required to replenish the reserve fund.
8. Other subordinated amounts, including a provision for a reserve to fund any purchase of caps, other hedging instruments in the next period, the subordinated Servicer fee and deferred purchase consideration.

Should the debit balance recorded on the PDL exceed the balance of then-outstanding class B notes, items (4) and (5) will be relegated below item (7). This ensures that any PDL debit balance corresponding to the class A notes will be reduced to zero prior to the payment of interest on class B notes.

Principal Used for Senior Interest Liquidity

Principal receipts may be used to pay interest on the class A notes in the event that it cannot be paid from excess spread and amounts in the reserve fund. The PDL will be debited by the amount used to pay senior interest. This debit balance will then be repaid at the relevant position in the revenue priority of payments using available revenue.

Principal Redemption

Mandatory

All amounts recorded as principal (including scheduled repayments, prepayments, amounts credited to the PDL and defaulted loan sale proceeds) other than in respect of senior interest shortfalls not covered by revenue funds, or further advances extended during the previous period, will initially be passed through to noteholders sequentially. However, once the following conditions have been met:

- all of the A1 Notes have been redeemed in full;
- the balance of junior notes as a proportion of the total outstanding balance of notes exceeds two times that at closing;
- it is after October 2009;
- there is no debit balance on the PDL;
- the balance of loans in arrears for over three months is less than 7.5% of the then-current balance; and
- the outstanding balance of class B notes is greater than 4.76% of the original principal balance;

Then amortisation will be *pro rata* to maintain the ratio of B notes to senior notes at that time.

Optional

At the option of the issuer it is possible to redeem all of the class A and B notes at their respective outstanding principal amounts plus accrued interest in the following circumstances:

- on or after the interest payment date in October 2008;
- if the then-current outstanding principal amount is less than 20% of the original principal balance;
- if the issuer is required to make any withholding tax deductions.

Fitch's ratings do not address the possible exercising of these call options held by the issuer.

Final

To the extent not previously paid down, class A notes are due to be redeemed in full in April 2035 and B notes in April 2044.

Interest Rate and Basis Risk

Some 26.77% of loans in the provisional pool have a fixed rate of interest for a specified period lasting until, at the latest, June 2011. While only a few of these will remain fixed-rate loans after October 2010, the possibility of variable rate loans subsequently being converted into fixed-rate loans may account for a higher number of fixed rate loans existing in the portfolio after this date.

In order to hedge its exposure to fixed and capped rate loans in a rising LIBOR (London Interbank Offered Rate) environment, the issuer will enter into a master interest rate exchange agreement with JPMorgan Chase Bank. Any increase in this exposure will be accompanied by a suitable extension of the hedging arrangements, funded from excess spread trapped in a subordinated position in the revenue priority of payments on the previous payment date.

Some 11.54% of the portfolio is charged against PML's or MTL's standard variable rate ("SVR"), which itself can be based on three-month LIBOR or Bank of England Base Rate. The potential mismatch between three-month LIBOR to be paid on the notes and the tracker and SVR-based rates to be paid on the underlying loans will not be specifically hedged within the transaction. Also, the potential mismatch between the three-month LIBOR basis for the notes and the underlying PML and MTL loans based on when their reset dates occur each quarterly is similarly not specifically hedged. Instead, Paragon has a threshold interest margin mechanism in this transaction designed to ensure that the weighted average contractual margin over three month LIBOR on the reference portfolio as a whole will be at least 1.6%, rising to 2% after October 2010. Should the weighted average margin fall below these levels the mortgage Administrator will, under the mechanism, be obliged to increase the SVR on the pool or ensure that there are sufficient funds in the shortfall fund to maintain the minimum level. Fitch has stressed the threshold interest margin rate that is achieved in its 'AAA' analysis. At this 'AAA' level, Fitch has also stressed the potential mismatch between tracker, SVR and LIBOR-linked loans with different rate setting dates than the three-month LIBOR paid on the notes, which has reduced the excess spread available to the transaction in such scenarios.

Currency Risk

The Issuer will enter into currency swaps to hedge the currency mismatches between the GBP-denominated assets and the USD and EUR note liabilities of some of the note classes.

Swap Counterparty Rating Requirements

The basis swap counterparty must be rated 'F1' and 'A', and the currency counterparty must be rated at least 'F1' and 'A+'. In the event of a downgrade of any counterparty below either of these levels, the counterparty will be required to collateralise any exposure, obtain a guarantee from a suitably rated counterparty or find a suitably rated replacement provider.

If any of the counterparties are then downgraded below 'F2' or 'BBB+', then the counterparty will need to be replaced by or obtain a guarantee from a suitable rated counterparty. At this level, it will only be possible to post collateral to support the swap if the mark-to-market calculations and the correct and timely posting of collateral are verifed by an independent third party.

If any of the counterparties are then further downgraded, the swap counterparty will need to be replaced by or guaranteed by a suitably rated counterparty.

Please see the report *"Counterparty Risk in Structured Finance Transactions: Swap Criteria"* dated 13 September 2004 and available at www.fitchratings.com for additional information on Fitch's criteria for such swaps.

Pre-Funding

The issuer has the right to purchase further mortgages up to 31 March 2005 (the first principal determination date), using funds set aside at closing from the proceeds of the notes and credited to the pre-funding ledger. Fitch must confirm that any pre-funded loans will not adversely affect the rating of the notes before they are included within the reference portfolio. At the first interest payment date, any balance which remains to the credit of the pre-funding ledger, which was not used to purchase mortgages, will be used to pay down the notes. The negative carry was incorporated into the cash flow modelling for both tranches.

Non-Verified Loans

As at the date of closing, all of the loans will have made their first payment. Loans to be purchased after closing with the pre-funding amount will also be required to have made their first payment.

Credit Enhancement and Liquidity

Reserve Fund

The reserve fund of GBP16.15 million (1.90% of the issue) will be fully funded at Day 1 via a subordinated loan advanced by Paragon Finance PLC. The reserve fund will further increase to 2.5% in the event that arrears in excess of 60 days exceed 3% of the portfolio.

Any drawings of the reserve fund (to cover losses or revenue shortfalls) will be replenished using available excess spread. The fund has been sized by Fitch to ensure that the notes have sufficient credit protection and liquidity support to merit their respective ratings.

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. However, unlike "hard" cash collateral, excess spread is dependent on the performance of the pool, and as such is often least available when most needed. It is eroded by delinquencies and defaulted loans, an effect that 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 tenures), then there is further compression of excess spread. Furthermore, high prepayment rates on the portfolio as a whole would squeeze the gross amount of credit enhancement available over the course of the transaction. To take account of these factors in its cash flow modelling, Fitch applied its performance assumptions (derived from the collateral model) in conjunction with stressed prepayment rates and a compressed weighted average coupon according to rating scenario (Fitch's approach to modelling cash flow in RMBS transactions is further discussed in Appendix One and in the criteria report *"A Guide to Cash flow Analysis for RMBS in Europe"* dated 20th December 2002 and available at www.fitchratings.com).

Collateral Analysis

The figures provided in Fitch's collateral analysis are based on the maximum drawable balance for the flexible mortgages and consequently differ slightly from those in the Offering Circular.

Some 98.65% of the provisional pool analysed consisted of prime residential buy-to-let mortgage loans, while 1.35% consisted of prime owner-occupied mortgages, with a total outstanding balance of approximately GBP717.9million (as at 31 August 2004). On or before the first interest payment date on 15 April 2004, further loans will be purchased using the retained pre-funding amount. The distinguishing characteristics of the portfolio are detailed below, together with commentary on any special considerations. All percentages are based upon the current balance of mortgages unless otherwise stated.

Buy to Let

Some 98.65% of the loans in the portfolio are buy-to-let loans. Fitch applies an additional default hit to these to reflect the fact that;

- the property is not the borrower's prime residence and so the borrower may be more likely to default on the loan during a time of financial stress; and,
- the servicing of the loan is primarily dependent on rental income which may be more volatile in stress periods than personal income.

In addition, landlord borrowers may target particular regions or groups of tenants within their portfolios which may lead to a concentration of similar properties in a similar location at the individual borrower level.

However, Fitch notes that whilst the minimum required debt service coverage ratio ("DSCR" expressed as monthly rental income against monthly mortgage interest repayment) is 120% (based on the Paragon reference rate, the initial fixed rate of the loan or Libor + 1.50%, depending on whether the loan was originated by PML or MT, and when the origination occurred), 89.68% of the loan portfolio by value have DSCR ratios above 130% and 37.29% by value have DSCR ratios above 200%. This would suggest that borrowers are protected to some degree from a potential reduction in rents. Fitch notes too that the majority of borrowers in this portfolio are professional landlords, with a minimum of 12 months' experience of managing at least three properties and with a recognised aptitude for enforcing tenancy contracts. The remaining buy-to-let borrowers are private investor landlords, also with significant experience, who aim to stay in the market for the longer term. This is a mitigant in minimising any downtime between tenancies. Another mitigating feature of buy-to-let loans in general is that upon default, the foreclosure process is likely to be quicker than in other cases, as tenants with short-hold tenancy agreements can generally be more easily evicted than owner-occupiers, while the property can be repossessed more speedily. For a more detailed commentary, please refer to "*Origination*" on page 8.

Repayment Type

Some 76.52% of the pool are interest-only mortgages. Fitch applies a default stress to these loans which reflects the increased risk of default at maturity due to the risk that the borrower may be unable to refinance the loan at this time.

Arrears Loans

In the provisional pool, 0.89% of loans by current balance are currently more than 30 days in arrears, of which 0.40% are over 90 days in arrears. Fitch assumes that loans in arrears are more likely to go into default, and applies more conservative default adjustments to these.

Interest Rate Type

Some 26.77% of loans by current balance are fixed rate for a pre-specified period, after which they revert to variable rate. All the fixed rate loans in the provisional pool will have reverted at the latest by June 2011. While this may lead to a minor payment shock, Fitch does not believe this warrants any special adjustment to default probabilities. The remainder of the loans in the pool have interest rates linked via Paragon's SVR to LIBOR or Bank of England Base Rate.

The ratio of fixed to variable rate loans may change not only as a result of periods expiring, but also following the approval of borrowers' requests by the Administrator to convert their mortgages, see "*Interest Rate Risk*" above.

Conversion
Subject to certain conditions, the Administrator may approve borrower requests to convert certain aspects of their mortgages, for instance from a variable rate loan to fixed or capped. To approve this change the issuer would have to obtain the necessary cash in advance in order that it would be in a position to extend the then current hedging facilities. This would be achieved either by trapping excess spread in advance or obtaining a loan from Paragon Finance PLC, whose subsequent claim would be in a subordinated position in the revenue waterfall.

Further Advances
Mandatory further advances are made to borrowers who have flexible mortgages and who have overpaid, or to those who have the right to obtain a further advance upon the completion of construction works or refurbishment to their properties. Discretionary further advances may be agreed and advanced to borrowers in the pool by, and at the discretion of, the Administrator (acting on behalf of the issuer) using principal receipts, recoveries or the subordinated loan, provided that:

- there was no debit balance on the PDL as at the previous interest payment date;
- the aggregate of (i) the issuer's maximum potential obligation – at closing – to fund mandatory further advances, and (ii) the maximum balance of discretionary and mandatory further advances made or being considered, is 16% of the original note balance;
- the reserve fund is at its required amount;
- in respect of discretionary further advances, the borrower has not been in arrears in the previous three months or in breach of the mortgage conditions; and
- the weighted average current loan-to-value of the portfolio would not exceed its value at closing by more than 1%.

Legal Structure
The PM8 legal structure is designed to ensure that a seller insolvency would not interrupt timely payments of principal and interest to investors.

On the closing date, the loan sellers will assign the rights, title and interest in and to the mortgages to PM8 (a public company incorporated under the laws of England and Wales). There will be no recourse to the sellers so that the transfer to PM8 will be treated as a true sale.

At closing, PM8 will enter into a deed of charge, creating security over the collateral in favour of the trustee as security for all payments under the notes. The security includes first lien mortgages and first fixed charges in favour of the trustee on all the Issuer's rights, claims, title, benefit and interest in and to the underlying collateral.

Representations and Warranties
The mortgage sale agreement contains representations and warranties given by the originator in relation to the pool of mortgages. No search of title will be conducted by the issuer or the trustee; rather they will rely on such representations and warranties. If there is an irremediable breach of any of the representations or warranties, the seller will be required to repurchase the loan(s) in question.

Specifically, the representations and warranties include the following:

- Each mortgage constitutes a first ranking legal mortgage or a second-charge mortgage when either PML or MTL are holders of the first charge, which is a valid and binding obligation of the borrower, enforceable under its terms.
- No lien or right of set-off exists between the borrower and the originator.
- Each loan has been underwritten according to the originator's lending criteria outlined in the offering circular. This includes proper investigation and search of the relevant properties.
- Prior to granting the loan, a property valuation was conducted by Paragon's and Mortgage Trust's in-house valuers or an independent valuer from the panel of valuers appointed by the originators.
- Each loan governed by the Consumer Credit Act 1974 meets the requirements of the Act in full.
- The maximum aggregate principal amount of arrears mortgages which may be purchased as at the date of purchase is GBP13million.
- At its date of completion, each property was insured under a buildings policy or a block buildings policy.
- All loans were originated by PML or MT.
- All loans have received their first payment instalment.

Origination and Servicing

Paragon Mortgages Limited Origination

PML is a subsidiary of The Paragon Group of Companies, a group specialising in the provision of various financial products to consumers. As a mortgage company, PML specialises in the origination of buy-to-let products, and since February 2001, the vast majority of originations have been to so-called professional borrowers. To qualify for the benefits of such a loan – notably a higher LTV – a borrower must already possess a portfolio of at least three properties and must present at least 12 months' of financial accounts for the underwriters to scrutinise. Such professional borrowers are typically characterised as individuals who earn a substantial portion of their income from the rental yield on their portfolio; indeed, some may rely entirely on this source of income for their livelihood. For new originators since 19 March of this year, PML has required that expected rental yields must exceed 120%, and ordinarily 130%, of monthly interest payments based on the Paragon reference rate. Prior to this period, the requirement was based on Libor + 1.50%.

PML has five levels of underwriting based on a hierarchy of mandates. To increase borrowings above these levels Paragon may request additional information, such as a business plan or performance data or conduct an interview with the applicant. Large exposures, i.e. in excess of GBP1million, to single borrowers are monitored via an annual review of accounts, letting conditions, voids, demand, cash flows, as well as a consideration of the borrower's strategy for the next 12 months. These controls are designed to ensure PML is kept abreast of the performance of key borrowers' portfolios, and may mitigate against single obligor concentration within the reference portfolio.

As with other buy-to-let lenders, PML prefers to retain human discretion in its lending procedures rather than adhere to a *pro forma* approach, and, as such, a hierarchy of mandates adhering to guidelines and criteria ensures that accountability is maintained. At the heart of policy-making is the overarching credit committee – comprising four standing members, department heads and other experts – which convenes on a monthly basis and which presides over any changes to criteria and special cases. Voting by department heads is restricted to departments other than their own, a segregation of duties that helps prevent "relationship-lending" factors influencing credit decisions.

Professional landlords are believed to be more adept at managing a portfolio of properties, monitoring and acting on economic conditions and market indicators, reducing downtimes between tenancies, and selecting tenant types and target locations than standard borrowers. This assertion is based on the time and energy that professional landlords are able to spend administering their portfolio and researching the market.

Mortgage Trust Origination

Mortgage Trust, part of the Paragon Group of Companies since June 2003, launched its new brand in September 2003. MT specialises in the origination of buy-to-let products, and the majority of originations are to emerging professional borrowers. These borrowers typically possess a portfolio of between two and five properties and are investing in the property market for the longer term. MT borrowers are expected to have rental yields generally exceeding 130%, except 125% in limited circumstances, of mortgage repayments on an interest-only basis. This ICR calculation was based on an interest payment of Libor + 1.50% for all loans in the portfolio. Going forward, this calculation will be based on the Paragon reference rate.

Mortgages are originated via direct distribution centres and, indirectly, through a network of brokers. The underwriters at MT have experience either in-house or with high street lenders. New hires follow a specific training/mentoring programme, after which they are gradually given increasing underwriting limits. Although underwriters follow the underwriting guidelines established by MT, they are allowed certain "discretion points" based on their seniority/experience. This results in an application to completion rate of approximately 65%.

Both PML and MT originate buy-to-let loans, which will not be qualified as regulated loans under the Financial Services Authority ("FSA"). Nevertheless MT may originate a very small number of loans which must qualify for FSA regulation. MTS has been granted authorisation by the FSA for regulated mortgage lending from the end of October 2004.

Servicing

Paragon Finance PLC is responsible for administering the mortgage loans in the Paragon-originated portion of the portfolio. It invested in sophisticated collections technology following the adverse credit experience suffered by the Group in the early 1990s. In a self-contained site at the Group's West Midlands base, ongoing contact with borrowers is maintained via a telephone-based debt management system known as CACS. CACS enables collection agents to schedule calls to borrowers upon a missed payment and provides a detailed diary-based collections management

platform. Fitch notes that this site has substantial operational history, and considers Paragon Finance PLC to be more than adequate in its role as servicer.

MTS (Mortgages Trust Services as Servicer for the MTL-originated loans) has an experienced mortgage servicing operation. The systems developed are user-friendly and tailored specifically to the needs of securitisation. MTL's origination remains in Epsom, while collection is in Solihull. Collections and arrears management are now performed by Paragon Finance PLC, using Paragon/MTS employees, who operate the same systems and processes as for the Paragon-originated mortgages.

Standby Servicing

Fitch considers the continuous, efficient servicing of the mortgage portfolio as fundamental to the successful performance of a mortgage backed transaction. As such, it requires that adequate arrangements are in place to ensure continued servicing in the instance that the named servicer in a transaction is unable to perform its duties.

This transaction features a standby servicer, GHL Mortgage Services Limited (GHLMSL), a subsidiary of Countrywide Credit Industries, Inc., and the largest third party servicer in the UK with over GBP60billion of loans in administration. GHLL is contractually required to assume servicing responsibilities in the event that Paragon is no longer able to continue servicing the portfolio.

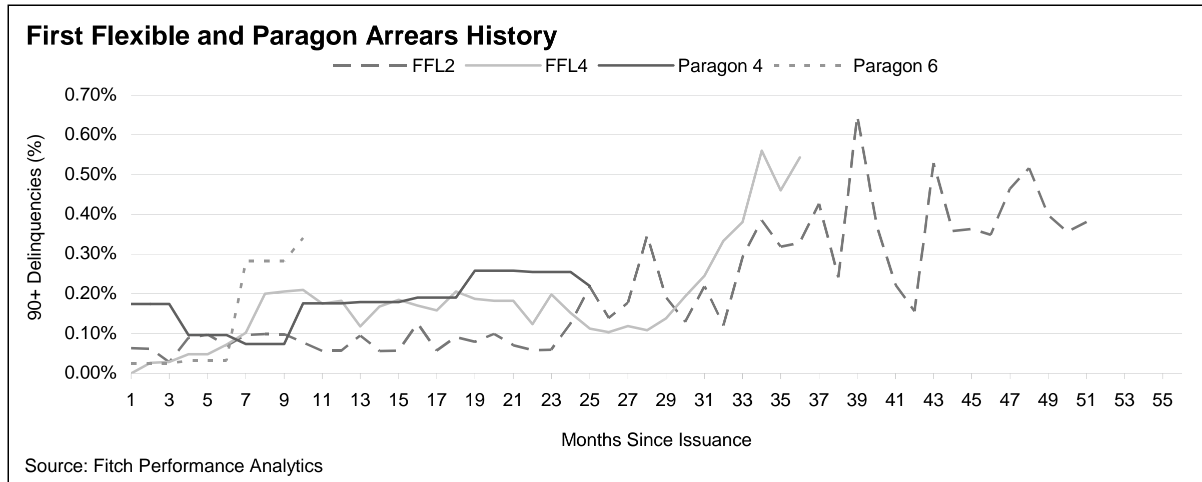
■ Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance surveillance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is accessible at www.fitchratings.com.

Please call the Fitch analysts mentioned on the first page of this report for any queries regarding the initial analysis or the ongoing surveillance.

Appendix 1



First Flexible No. 2 plc: 100% buy-to-let loans originated by First Active Financial UK. 87% flexible loans.

First Flexible No. 4 plc: Only 52.1% of the original loan portfolio consisted of buy-to-let loans originated by Britannic Money plc and First Active plc. 97.5% of the initial loans were flexible loans.

Paragon Mortgages (No. 4) plc: 84.3% of the original loan portfolio consisted of buy-to-let loans. Approximately 29% of the initial loans were originated before PML began to focus fully on the professional landlord market.

Paragon Mortgages (No. 6) plc: 100% PML buy-to-let loans.

Appendix 2 – Rating Methodology

Model Approach

To determine loss coverage for RMBS, Fitch's default model employs a loan-by-loan review, examining several loan-, borrower-, lender- and property-specific factors that most influence default probability and loss severity. Fitch's base default probability analysis focuses primarily on the borrower's income multiple, in conjunction with the loan's LTV. These expected default rates are then adjusted further by loan, borrower, lender and property attributes. A large component of Fitch's loss severity analysis is market value trends. Fitch's market value assumptions focus on historical regional volatility and sustainable growth. Market value projections are then adjusted by loan and property attributes.

Default Probability Adjustments

Underwriting and Servicing Quality: When applying the default probability matrix, Fitch also considers a lender's underwriting and servicing guidelines. Fitch's views will be formed following a due diligence visit, where the lender's criteria and procedures regarding borrower income, LTV, borrower's past credit performance and many other factors will be considered. Fitch's review and analysis of the originator determines whether it decreases base default rates by up to 25% or increases them by up to 250%.

Investment Properties: Fitch's methodology in evaluating the default probability of a Buy-to-let (BTL) portfolio is to use the UK residential default model, but with the following additional assumptions:

- For the base probability of default, BTL loans are assigned an affordability class based on underwriting criteria related to the minimum interest cover requirement. Generally speaking, Fitch will assign a high affordability class (meaning less affordable and thus a higher base probability of default) unless rental yields are estimated to exceed 150% of the mortgage payment, including principal, and are tested at a stressed interest rate.
- A loan-by-loan increase in base default probabilities by 25% for the fact that the properties are non-owner occupied.
- Increase in the underwriting quality factor to account for lack of experience in BTL. This factor also incorporates originator-specific issues related to underwriting criteria, historical experience as well as servicing capabilities.

Repayment Types: The most common repayment types in the UK market are repayment and interest-only mortgages. Interest-only mortgages are usually linked to some form of investment vehicle: either an endowment policy, a pension or Individual Savings Account (ISA) which are designed to repay the loan principal on maturity. The following factors should be noted:

- Repayment mortgages incur no default probability adjustment.
- Interest-only mortgages are susceptible to the payment shock associated with a 'balloon' repayment for the entire principal at maturity. The borrower may be able to remortgage and thereby pay off his existing mortgage; however if his circumstances have changed this may not be possible. The further off the maturity date is, the more there is capacity for the borrower's circumstances to change. For this reason, Fitch applies an increased default factor to interest only loans of between 1-1.33 depending upon the length of time to maturity.

Loan Purpose: Fitch does not penalise mortgage loans advanced to purchase a home or those advanced to refinance existing mortgage loans, nor loans to release equity for the purpose of home improvements. However, Fitch views mortgage loans advanced to release equity in the home (equity refinance mortgages) in order to consolidate other existing debts (such as credit cards) as more risky by their nature. For this reason, Fitch applies an increased default factor of 1.1-1.25 depending on underwriting criteria for such loans.

Mortgages in Arrears: When rating a portfolio combining current and arrears mortgages, Fitch increases base default rates for mortgages in arrears up to 90 days by factors between 1.25 and 1.75. For mortgages that are in arrears for more than 90 days, Fitch assumes a 100% default probability.

Second Homes: While information about mortgage performance for second homes is limited, Fitch believes that second homes are considerably more susceptible to default. A financially distressed borrower is more likely to default on a second home than on his primary residence. Accordingly, Fitch increases base default by a factor of 1.1-1.25.

Right to Buy: Council tenants have the opportunity to purchase their own homes through the UK government's Right to Buy scheme. Available information suggests that there is a higher propensity to default. For this reason Fitch applies and increases default probability factor of between 1.1-1.25.

Product Type: Most UK RMBS issues are primarily backed by variable rate mortgages. While variable-rate mortgages can experience payment shock due to underlying index volatility, this risk is usually gradual with ½-1% interest rate rises. Other mortgage types commonly available include initially fixed-rate mortgages and capped-rate mortgages which reset to variable rate after a limited period. Although these loans may be more susceptible to payment shocks after the reset date (if rates have risen substantially during the fixed- or capped- rate period) Fitch believes this does not warrant a supplementary default factor. Other product types will be evaluated individually.

Loss Severity

Fitch's UK default model quantifies loss severity (or, conversely, recovery value) by focusing on several factors, including market value declines, foreclosure and carrying costs, and LTV.

Market Value Declines: Fitch's MVD methodology focuses on three key factors: volatility of observed prices from the long-term trend; historical levels of stress experienced in the housing market of each region; and the current position of the index relative to the long-term trend.

For example, the MVDs for East Anglia, London and the South East are highest, reflecting high historical volatility and current prices well above the long-term trend line. The MVD for Scotland is lowest, reflecting low historical volatility and current prices slightly below the long-term trend line.

Indexing of Property Valuation: Fitch's model uses a conservative index to adjust original property values depending on the year of valuation. The index is based on information obtained from sources in the mortgage industry and considers both the year of valuation and the region in which the property is located. Where there has been capital appreciation this is a mitigating factor in the calculation of loss severity but will be offset by higher MVDs assigned to regions that have seen above average price appreciation.

High- and Low-Value Properties: Homes with relatively high or relatively low market values are generally subject to higher MVDs in a deteriorating market than homes with average market values due to limited demand for such properties. Imprecise pricing information, caused by the lack of comparable benchmark homes in the case of high-value properties, also influences the amount of price volatility during a market downturn. The market value thresholds are increased periodically to reflect the increase in housing prices. Adjustments for high- and low-value properties are split between London and the rest of the country due to higher prices in London, and the differential between what would constitute a high- or low-value property.

Mortgage Indemnity Guarantee (MIG) Policies: Many lenders require borrowers to pay for MIG for that portion of their mortgage loan which exceeds a certain LTV level (usually 75%). In case of default by the borrower, the lender will be able to recover any loss on the portion of the loan in excess of that LTV limit (subject to any policy deductions) from the MIG provider. Fitch will give credit for MIG on a case-by-case basis. Fitch will review the MIG policies to determine the extent of coverage and payment terms and to determine whether there are any exclusion clauses which might lead to non-payment of claims by the insurer. The insurer's rating is also taken into consideration when determining the amount of credit to be given for MIG.

Geographic Concentration: Fitch also assumes that a mortgage portfolio is generally broadly diversified in geographical terms. A particular region might be more sensitive to economic downturns and/or other negative developments in the property and mortgages market than others. If a portfolio has significant regional concentrations, Fitch will make adjustments on a case-by-case basis. As a general rule, for pools with high concentrations in specific regions, credit enhancement necessary for a particular rating level will be higher than for geographically diversified portfolios.

Foreclosure and Carrying Costs: When calculating recovery value, Fitch's model reduces the property valuation by foreclosure costs and the cost to the administrator of "carrying" the loan from delinquency through to default. Fitch assumes foreclosure costs amount to 5% of the sale price at the time of foreclosure. This estimate is based on actual cost data supplied to Fitch, and may be adjusted as cost structures change in the industry and jurisdiction.

To calculate carrying costs, Fitch assumes the borrower does not pay interest for 18 months in the case of a residential property and 12 month in the case of an investment property. The interest rate used reflects the need to continue to service the notes during the period that the defaulted loans are not generating any revenue. The 18- and 12- month time frames are based on worst-case estimates obtained from U.K. mortgage lenders.

Paragon Mortgages (No. 8) PLC — RMBS/UK

Capital Structure

Class	Rating	Size (%)	Size (GBPm)	CE (%)	Spread	PMT Freq	Maturity	Coupon	ISIN
A1	AAA	28.0%	238	11.90	[•]bps	Qtrly	2035	[•]	[•]
A2	AAA	62.0%	527	11.90	[•]bps	Qtrly	2035	[•]	[•]
B	A	10.0%	85	1.90	[•]bps	Qtrly	2044	[•]	[•]

	Size (%)	Size (GBPm)
Cash Reserve	1.90	
Step Up Date	October 2010	

AAA 90%
A 10%

Key Information

Closing Date	[ ] October 2004	**Parties**	
Country of Assets	United Kingdom	**Seller/Originator**	Paragon Mortgages PLC and Mortgage Trust Limited
Issuance Date	[•]	**Servicer**	Paragon Finance PLC and Mortgage Trust Services
Structure	Pass Through		
Bloomberg	[PARGN 8]	**Lead Manager**	Deutsche Bank, JPMorgan
Settlement	Clearstream & Euroclear	**Standby Mortgage Administrator**	Global Home Loans Limited
Listing	Luxembourg Stock Exchange	**Basis Hedge Provider**	JP Morgan Chase
Analyst	Suzanne Albers	**Currency Swap Provider**	HSBC
	suzanne.albers@fitchratings.com	**Trustee**	Citicorp Trustee Company Limited
	+44 20 7417 6325	**Account Bank**	National Westminster Bank
		Flexible Drawings Facility Provider	[ ]

Others (Summary)

Short Term Rating Triggers (Minimum)

Basis Swap Counterparty	F1 and A
Currency Swap Counterparty	F1 and A+

Structure

Separate revenue and principal waterfalls to repay principal and interest on the notes

Principal can be used to pay interest on the senior notes. Such a payment will be recorded on the PDL and repaid from available funds.

The reserve fund is fully funded at closing but will increase to 2.5% upon certain events.

Credit Committee Highlights

The portfolio contains two called transactions: Paragon Mortgages (No. 2) and (No. 3)

98.65% of the portfolio is comprised of buy to let mortgages

Borrower focus on professional landlords and private investors

Paragon reference rate for new PML originators and Libor plus 1.50% for MT loans and older PML originations used for minimum ICR requirement rather than actual rate charged

Despite recent spike in arrears following move of MT servicing to Solihull, arrears performance strong for buy-to-let loans

16.94% of the portfolio is comprised of flexible mortgages. A 0.50% redraw facility provides liquidity for flexible redraws on such loans.

Fitch Default Model Output

Rating Level	AAA	AA	A	BBB
WAFF (%)	30.03	24.35	18.67	13.00
WARR (%)	73.46	78.65	83.56	88.2
WALS (%)	32.90	27.72	22.82	18.21
MVD	44.98	40.66	36.35	31.97

Structure Diagram

Flexible Drawings Facility Provider
Flexible Drawing Facility
PFPLC
PFPLC - MTS as Servicers
PSFL
GHLMSL as Standby Servicer
Subordinated Loan
PML
Mortgages
Swap Counterparty
Arianty
Mortgages
Hedging Arrangements
Issuer
MTL
Notes
GBP
Trustee
Security Trust
Investors

Source: Transaction Documents

Collateral– inclusive of maximum drawable balance. The current securitised portfolio excluding the maximum drawable balance totals GBP716,154,770 with a WA original LTV of %

Pool Characteristics

Current Principal Balance (GBP)	717,853,857	Regional Concentration (%)[3]	
Average Current Loan per Borrower (GBP)	87,962	London	24.2
Number of Loans	8,161	Outer Metro	9.90
Seasoning (Months)	24.24	South East	12.22
Loan to Value (LTV) (%)		Yorks and Humber	11.06
WA OLTV	78.26	North West	10.60
WA Indexed CLTV[1]	69.52		
Mortgage Characteristics		First Ranking:	100
		Owner Occupied	1.35
Less Liquid Properties[2]	20.73	Buy to Let	98.65
Interest Only Loans	76.52	Right to Buy	0.00
Interest Rate Type			
Capped Rate Loans (%)	0.01	Arrears	
Fixed Rate Loans (%)	26.77		
Other (%)	69.19	31-60 days	0.34
WA Interest Margin (%)	1.46	61-90 days	0.15
Interest Index (Libor)	Libor	> 90 days	0.40

[1] Based on 50% credit given to upwards movements in Nationwide regional house price indices.
[2] Particularly large or small properties at less liquid extremes of market
[3] Geographic distribution is calculated using Nationwide regional indices
Source: Fitch, Pool cut of 31 August 2004 provided by Paragon Mortgages PLC.

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