STANDARD & POOR'S

STRUCTURED FINANCE

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RMBS Presale Report

Paragon Secured Finance (No. 1) PLC

£300 Million Mortgage-Backed Floating-Rate Notes

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This presale report is based on information as of Nov. 30, 2004. The credit ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of final credit ratings that differ from the preliminary credit ratings. For further ratings information, call one of the following Standard & Poor's numbers: London Ratings Desk (44) 20-7176-7400; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5916; or Moscow (7) 095-783-4017. Members of the media may also contact the European Press Office via e-mail on: media_europe@standardandpoors.com. Investors are invited to call the SF Investor Hotline on (44) 20-7176-3223.

Class	Prelim. rating*	Prelim. amount (Mil. £)	Available credit support (%)	Interest	Legal final maturity
A	AAA	231	27.5	Three-month British pound sterling LIBOR plus a margin	2035
B	A	42	13.5	Three-month British pound sterling LIBOR plus a margin	2035
C	BBB	27	4.5	Three-month British pound sterling LIBOR plus a margin	2035

**The rating on each class of securities is preliminary as of Nov. 30, 2004 and is subject to change at any time. Final credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely interest and ultimate principal.*

Transaction Profile	
Originator	Paragon Personal Finance Ltd.
Arranger	Barclays Capital
Mortgage administrator	Paragon Finance PLC
Security trustee	Citicorp Trustee Co. Ltd.
Transaction account provider	National Westminster Bank PLC
Interest-rate swap counterparty	Barclays Bank PLC

Supporting Ratings	
Institution/role	Ratings
National Westminster Bank PLC as transaction account bank	AA/Stable/A-1+
Barclays Bank PLC as interest-rate swap counterparty	AA/Stable/A-1+

Transaction Key Features	
Expected closing date	December 2004
Collateral	A pool of second-lien mortgages on residential properties in England, Wales, Scotland, and Northern Ireland
Principal outstanding (Mil. £)	241
Prefunding amount (Mil. £)	59
Prefunding period (months)	Five
Country of origination	England, Wales, Scotland, and Northern Ireland
Geographic concentration – London and the South East (%)	29.27
Property occupancy	100% owner occupied
Weighted-average LTV ratio (%)	87.88
Average loan size balance (£)	22,159
Largest loan size (£)	95,816
Weighted-average seasoning (months)	9.89
Weighted-average asset life remaining (years)	15.65
Weighted-average margin at closing (%)	4.69
Arrears (greater than one month) (%)	2.97
Cash reserve (%)	4.5
Substitution period (years)	Four
Mortgage priority	99% of pool with second charge
Maximum LTV ratio (%)	149
Principal deficiency ledger	Yes
Number of jumbo loans	Zero

Transaction Summary

Preliminary credit ratings have been assigned to the £300 million mortgage-backed floating-rate notes to be issued by Paragon Secured Finance (No. 1) PLC. The ratings reflect the transaction's sound payment structure, the ability of the servicer (Paragon Finance PLC) to perform its role, and the cash flow mechanics of the transaction.

Further key considerations include the strong protection for the class A noteholders provided by a combination of the subordinate class B and C notes (23.0% of the notes issued), the first-loss fund (4.5% of the notes issued), and excess spread to cover credit losses and income shortfalls. Strong protection for the class B noteholders is provided by a combination of subordination provided by the class C notes (9% of the issued notes), the first-loss fund, and excess spread to cover credit losses and income shortfalls.

This is Paragon's 12th public securitization rated by Standard & Poor's. Previous transactions involved either portfolios of first-lien mortgages, portfolios of consumer and auto finance receivables, or a mixture of second-lien mortgages and auto receivables.

Notable Features

This is the first of Paragon's U.K. RMBS transactions to be backed almost entirely by second-lien mortgages on residential properties (99% of the portfolio).

Strengths, Concerns, and Mitigating Factors

Strengths

- The sellers and administrators have an experienced and sound understanding of the second-lien mortgage market, and also are experienced in servicing securitizations.
- Strong protection is provided by the drawing under the subordinated loan, which funds the cash reserve account to 4.5% of the initial outstanding balance of the notes, and also the high level of excess spread available to cure any losses under the mortgage portfolio.

Concerns

- The mortgage portfolio may be substituted for up to four years, which could lead to a significant change in the credit profile of the portfolio.
- High combined-LTV ratio second mortgages are vulnerable to changes in house prices, leading to the potential that a large portion of the pool could experience negative equity.
- The impact of the impending change to the International Financial Reporting Standards accounting policies on the accounting and taxation position of the borrower group is uncertain.

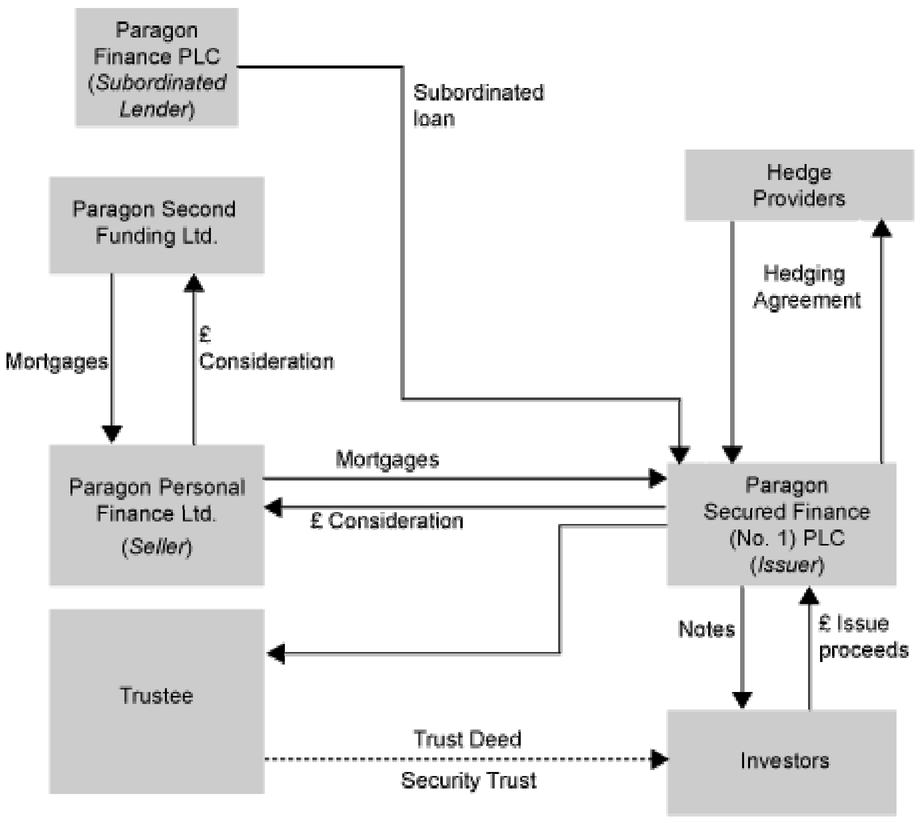
Mitigating Factors

- There are strict conditions to substitution, which prevent the profile of the pool changing significantly.
- The credit analysis applies stressed levels of house price market value declines to the mortgage portfolio and the levels of credit enhancement are sufficient to repay the notes under these circumstances.
- Cash flow modeling was undertaken to establish the sufficiency of the interest cash flows in certain interest-rate environments.
- There has been a statement of intent by the Inland Revenue to disapply the change to the International Financial Reporting Standards for SPEs.

Transaction Structure

At closing, and in accordance with the terms of a mortgage sale agreement, the issuer will acquire from Paragon Personal Finance Ltd. the beneficial interest in the initial pool of mortgages, which will form part of the security for the notes (see "*Security Package*"). The borrowers in respect of the issuer mortgages are individuals with residential properties in the U.K. The issuer will fund its purchase of the mortgage pool by the issuance of the class A, B, and C notes (see chart). There is also a subordinated loan from Paragon Finance that will be drawn at close to fund the cash reserve.

Paragon Secured Finance (No. 1) PLC Structure



The issuer can purchase further mortgages for the first four years of the transaction as the initial mortgages amortize. The conditions to amortization are set so as to ensure that the portfolio's credit risk and cash flow margin stay in line with the pool that is analyzed to rate the transaction.

All classes of notes will be secured by all of the mortgages in the pool and repayments to noteholders will be financed from the cash flow generated by the mortgages.

Security Package
Under the deed of charge to be entered into between the issuer and the trustee, the notes will be secured by a first-fixed charge over the issuer's interest in the mortgages, the issuer's rights under various transaction documents, and other security such as bank accounts (covered under a floating charge ranking behind preferred creditors) and hedging agreements.

Collateral Description

The collateral for this transaction is almost exclusively (99%) made up of second-lien mortgages on residential properties in England, Wales, Scotland, and Northern Ireland. Key characteristics on the mortgage pool are:

- A weighted-average LTV ratio of 87.88%;
- The largest loan in the completion pool being approximately £95,000;
- The pool having a 10 months weighted-average seasoning;
- Approximately 26% of the pool having a combined weighted-average LTV ratio greater than 100%; and
- The geographical split being roughly 60% in the north and 40% in the south of the U.K.

The approach to evaluating the credit quality of a portfolio of second-lien mortgages is covered by the U.K. RMBS criteria (see "*Criteria Referenced*"). The difference between the analysis for first- and second-lien mortgages are principally (i) that the base foreclosure frequencies are significantly increased to take into account the potential increased default probability, and (ii) that the time to foreclosure is extended from 18 months to 24 months as the first-lien mortgages need to be settled prior to the second-lien mortgages being settled.

On top of the different treatment, the credit analysis for second-lien loans takes into account the existence of the first mortgage when calculating the combined LTV ratio of the loan. Due to the fact that usually the combined LTV ratios are greater than that of the average first-lien pool, second-lien pools can be penalized more severely by the stressed market value declines that are applied at the different rating levels.

Key Parties

Paragon Secured Finance (No. 1) PLC (Issuer)

The issuer is a public company incorporated under the laws of England and Wales on Aug. 16, 2002, and is a subsidiary of The Paragon Group of Companies PLC, the ordinary shares of which are listed on the London Stock Exchange.

The issuer is an SPE established to issue the notes and purchase the mortgages. It fully meets Standard & Poor's SPE criteria for bankruptcy remoteness. The issuer has an independent director.

Paragon Personal Finance Ltd. (Originator)

Paragon Personal Finance is a private company incorporated in England and is a wholly owned subsidiary of the Paragon Group of Companies PLC. Paragon Personal Finance is the originator of 100% of the mortgages in the portfolio. All of the mortgages are introduced through broker intermediaries.

Citicorp Trustee Co. Ltd. (Trustee)

The trustee's role is to supervise the administration of the issuer under the terms of the transaction and generally to represent and protect the interests of the noteholders. Only the trustee will be able to enforce the security under the terms and conditions of the notes and it will always have to act in the best interests of the noteholders.

Paragon Finance PLC (Mortgage Administrator)

As administrator, Paragon Finance will be responsible for the day-to-day administration and ongoing servicing of the underlying portfolio of mortgages originated by Paragon Personal Finance. Paragon Finance is also responsible for producing all reports and accounts for the trustee and Standard & Poor's in connection with the performance of the mortgages.

A review of Paragon Personal Finance's origination, underwriting, and valuation processes and Paragon Finance's collection and default management procedures (as administrator) has been conducted. This review is an integral part of the corporate overview carried out during the rating process of any transaction and is maintained throughout the life of the transaction. Paragon Finance is deemed capable of performing the functions necessary to ensure the collection of borrower payments and management of arrears and repossession cases.

Paragon Finance PLC (Subordinated Loan Provider and Shortfall Fund Provider)

Paragon Finance will also provide a subordinated loan to the issuer, which will fund the first-loss fund, which is a cash reserve forming part of the credit enhancement for the notes.

National Westminster Bank PLC (Transaction Account Provider)

NatWest (AA/Stable/A-1+) will provide the transaction account. Payments from Paragon Personal Finance borrowers will be paid into a collection account, which is also held with NatWest, and then transferred to the transaction account.

Note Terms and Conditions

The issuer is expected to issue three classes of notes, the class A, B, and C notes. The class A notes will rank senior to the class B and C notes, and the class B notes will rank senior to the class C notes.

Interest will be payable quarterly on the notes based on three-month British pound sterling LIBOR plus an annual margin. Note margins on all outstanding classes will step up after November 2009.

Mandatory Redemption

The notes will be subject to mandatory redemption in part on each interest payment date after the four-year revolving period, from available funds. There will be no mandatory redemption of the class B and C notes for the first five years from the closing date (unless the class A notes have been fully redeemed). Thereafter, while the class A, B, and C notes remain outstanding, redemption will be applied pro rata, subject to:

- The ratio of the class B and C notes to the aggregate of the outstanding class A, B, and C notes being no less than twice the ratio at closing;
- There being a zero balance on the principal deficiency ledger and the reserve fund being fully funded;
- The minimum outstanding amount of the class B notes being 4.76% of the notes to be issued; and
- Arrears of more than three months being less than 10%.

Optional Redemption

The issuer may redeem all (but not part only) of the notes at their outstanding principal amount, together with accrued interest if:

- A withholding tax is imposed on the notes or on payments by either party to the swap agreement; or
- The aggregate principal amount outstanding of the notes falls below 20% of the notes to be issued.

The issuer may also redeem at its option the notes on the interest payment date in November 2008 or on any interest payment date thereafter.

Final Redemption

If not already redeemed, the class A, B, and C notes will be redeemed at their legal final maturity in 2035.

Substitution Conditions

The issuer can substitute new mortgage loans on any date for up to four years after close, provided that the conditions to substitution are satisfied. These include:

- The reserve fund being fully funded;
- There being a zero balance on the principal deficiency ledger;
- The product of the pool weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) not exceeding 0.25% of the WAFF and WALS product on closing;
- The weighted-average yield above LIBOR on the mortgage pool (including income/costs from hedging, investments, and redemptions) not being less than 4.5%;
- The additional mortgages being originated using substantially the same lending criteria;
- Arrears of more than three months being less than 10%; and
- The aggregate of payments of interest received from borrowers during the three months ending on the immediately preceding principal determination date being 95% or more of the aggregate of interest that fell due for payment by borrowers in respect of all mortgages in that period.

Hedging

On closing, there will be a small percentage (1.75%) of the portfolio that will pay interest at a fixed rate. Due to the size of this portion, the exposure is not being hedged. However, it is being modeled in the cash flows. If the percentage of fixed-rate loans increases due to substitutions, the issuer will enter into a fixed-to-floating swap to cover the interest-rate risk on the transaction.

Standard & Poor's Stress Test

The rating analysis includes a conservative assessment of the credit risk inherent in the transaction. The credit enhancement levels have been sized after analyzing the effect that severe stress scenarios would have on the collateral. In determining the credit quality of a mortgage pool, an estimate must be made of a worst case of potential losses that could occur because of foreclosures. This estimate of potential losses is the amount of loss protection needed. All types of loans are thus eligible for inclusion in a pool, provided their credit risk can be quantified and adequate loss protection is supplied.

The cash flows simulate the performance of this portfolio in the transaction's documented structure under certain stressed scenarios. In addition, the issuer will make use of the basis swap to prevent mismatches in interest rates on any fixed-rate loans. Any bank accounts of the issuer are required to be with appropriately rated providers.

Surveillance Details

Surveillance will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral will be analyzed, supporting ratings will be monitored, and regular contact will be made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.

Criteria Referenced

- "Revised Criteria for Rating U.K. Residential Mortgage-Backed Securities" (published on July 5, 2001).
- "Legal Criteria for Structured Finance Transactions" (published in April 2002).
- "Guidelines for the Use of Automated Valuation Models for U.K. RMBS Transactions" (published on Feb. 20, 2004).

Related Articles

- "Ratings Transitions 2003: Upgrades on the Rise as European Structured Finance Ratings' Stability Continues" (published on Jan. 15, 2004).

All criteria and related articles are available on RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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