

FEE LETTER

PARAGON MORTGAGES (NO.11) PLC

St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE
Registered in England and Wales as company number 4513183

To: Paragon Finance PLC
St. Catherine's Court
Herbert Road
Solihull
West Midlands
B91 3QE (the "Issue Services Provider"),

Citicorp Trustee Company Limited
Citigroup Centre, 14th Floor
Canada Square
Canary Wharf
London E14 5LB

23 March 2006

Dear Sirs,

Fee Letter

Pursuant to the powers contained in its Articles of Association and a resolution of its Board of Directors passed on 13 March 2006, Paragon Mortgages (No.11) PLC (the "Company") has duly authorised and has determined to create and issue several classes of mortgage backed floating rate notes as described in an Offering Circular dated on or about 17 March 2006 (the "Notes").

The Issue Services Provider will pay, on behalf of the Company, or reimburse to the Company any expenses payable by the Company in connection with the issue of the Notes.

The Company has agreed to reimburse the Issue Services Provider for all fees, commissions and expenses (including any interest in respect of such fees, commissions and expenses) receivable from HM Revenue & Customs, by way of repayment, credit or set off) in connection with the issue of the Notes paid by the Issue Services Provider on behalf of the Company and as its agent and to pay interest thereon as described herein.

The Company has also agreed to pay the Issue Services Provider an arrangement fee in consideration of the Issue Services Provider arranging on the Company's behalf for the Notes to be issued.

Terms defined in the agreements listed in Schedule 1 hereto shall, unless otherwise defined herein, have the same meanings when used herein.

- 1. REIMBURSEMENT OF THE EXPENSES IN CONNECTION WITH THE ISSUE OF THE NOTES**

- 1.1 The Issue Services Provider undertakes that it will pay on behalf of the Company or reimburse the Company for the fees, commissions and expenses specified as being payable by the Company pursuant to and in accordance with Clauses 4 and 8.1.1 of the Subscription Agreement, and the fees specified as being payable by the Company on the Closing Date pursuant to and in accordance with Clause 6.2 of the Substitute Administrator Agreement, and the fees, costs and expenses specified in Clause 2 and Clause 3 of the A1 Note Conditional Purchase Agreement and the expenses specified in Clause 8.2 of the Remarketing Agreement.
- 1.2 The Company will repay to the Issue Services Provider all such fees, commissions and expenses (together with any amounts in respect of VAT to the extent such VAT is not receivable from HM Revenue & Customs by way of repayment, credit or set off) paid by the Issue Services Provider on behalf of the Company or reimbursed to the Company by the Issue Services Provider pursuant to Clause 3 and Clause 4 hereof. The Issue Services Provider will within three months after the Closing Date notify the Company of the aggregate amount of such fees, commissions and expenses (the "Expenses Amount").
- 1.3 The Expenses Amount will be re-payable in accordance with Clause 3 and Clause 4 hereof.

2. PAYMENT OF ARRANGEMENT FEE TO THE ISSUE SERVICES PROVIDER

- 2.1 The Company will pay the Issue Services Provider an arrangement fee equivalent to 0.4 per cent. of the aggregate initial GBP Equivalent Principal Liability Outstanding of the Notes to be issued by the Company (the "Arrangement Fee").
- 2.2 The Arrangement Fee will be payable in accordance with Clause 3 and Clause 4 hereof.

3. INSTALMENTS OF EXPENSES REIMBURSEMENT AND ARRANGEMENT FEE

- 3.1 Subject to Clause 4 hereof, the Company will pay to the Issue Services Provider (i) the Expenses Amount and (ii) pay the Arrangement Fee, in both cases in 16 equal Instalments. Each Instalment shall be paid on or (with the prior agreement of the Issue Services Provider) after the date which is the first Business Day after the first Interest Payment Date (being the Interest Payment Date falling on or after 1 July 2006) and one Instalment of each of the foregoing shall be paid on each day falling on or (with the prior agreement of the Issue Services Provider) after the date which is the first Business Day after each of the succeeding 15 Interest Payment Dates, provided that, where such a day is not a Business Day, such payment shall be made on the next succeeding Business Day and provided further that if such payment cannot be made on the relevant Interest Payment Date (for whatever reason), such payment shall be made on the next succeeding Interest Payment Date.

- 3.2 Subject to Clause 4 hereof, the Company will pay to the Issue Services Provider interest on the Expenses Amount and interest on the Arrangement Fee in each case in the amount calculated in accordance with Schedule 2 hereto. Interest will accrue from day to day and will be calculated on the basis of the number of days elapsed and a year of 365 (or 366 in the case of a leap year) days. Interest will be payable in arrear at the same time as the Instalment to which such interest relates in respect of the Interest Period ending on the relevant Interest Payment Date (as such terms are defined in Condition 4(a) of the Notes) whether or not any Note remains outstanding.

4. SUBORDINATION AND LIMITED RECOURSE

- 4.1 No Instalment (or, where relevant, interest in relation thereto) shall be payable by the Company to Issue Services Provider except in accordance with the provisions of Clauses 6, 7 and 8 of the Deed of Charge unless and until all sums thereby required to be paid in priority thereto have been paid or discharged in full.
- 4.2 Notwithstanding any other provision of this letter, the Issue Services Provider agrees that, if the security for the Notes is enforced and the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority (pursuant to Clause 8.2 of the Deed of Charge) to amounts outstanding under this letter, to pay in full all amounts due under the terms of this letter, then the Issue Services Provider hereby acknowledges that it shall have no further claim against the Company in respect of any such unpaid amounts.

5. PAYMENTS

All payments to be made pursuant hereto shall be made in sterling in immediately available funds.

6. VARIATION

No variation of this letter shall be effective without the prior written approval of the Trustee.

7. ASSIGNMENT

The Issue Services Provider may assign, transfer or create any trust or interest in (whether by way of security or otherwise howsoever) or otherwise dispose of all or any of its rights under this letter in favour of any person provided that such person becomes a party to the Deed of Charge and agrees to rank, for the purpose of the order of priority set out in Clause 6.1.2 thereof, as if it were included after paragraph (m) and before paragraph (n) therein and, for the purpose of Clause 8.2 thereof, as if it were included after paragraph (g) and before paragraph (h) therein.

8. GOVERNING LAW

This letter is governed by, and shall be construed in accordance with, English law.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us one counterpart hereof, and upon the acceptance hereof by you, this letter and such acceptance hereof shall constitute a binding agreement between each of the Company, the Issue Services Provider and the Trustee.

Yours faithfully,

Signed for and on behalf of:

Paragon Mortgages (No.11) PLC



By:
Name: John Alexander Harvey
Title: Attorney

Signed for and on behalf of:

Paragon Finance PLC



By:
Name: John Alexander Harvey
Title: Attorney

Signed for and on behalf of:

Citicorp Trustee Company Limited



By:
Name: David Mensa
Title: Director



By:
Title: Director

SCHEDULE 1

1. The subscription agreement in respect of the Offered Notes (as defined therein) to be dated on or about 16 March 2006 and made between, among others, the Company, Paragon Finance PLC (the "**Issue Services Provider**"), Mortgage Trust Services plc ("**MTS**"), Paragon Mortgages Limited ("**PML**"), J. P. Morgan Securities Ltd., The Royal Bank of Scotland plc, Deutsche Bank A.G., London Branch and the other Managers (as defined in that agreement) (the "**Subscription Agreement**");
2. The substitute administrator agreement made between, among others, the Company, the Trustee and Homeloan Management Limited Limited ("**HML**") (the "**Substitute Administrator Agreement**") and dated 23 March 2006;
3. The deed of sub-charge and assignment made between, among others, the Company, the Trustee, PML, the Issue Services Provider, MTS, Mortgage Trust Limited, Barclays Bank PLC (as the Currency Swap Provider), JPMorgan Chase Bank, National Association and ABN AMRO Bank N.V., London Branch (as the Basis Hedge Providers) and the Trustee and dated 23 March 2006 (the "**Deed of Charge**"); and
4. The administration agreement made between PFPLC, MTS, MTL, PML, the Company and the Trustee dated 23 March 2006 (the "**Administration Agreement**").

SCHEDULE 2

The quarterly amount of interest payable on the Expenses Amount and on the Arrangement Fee, or on any part thereof, in either case on the Interest Payment Date falling next after any Interest Period (the "Relevant Interest Period") shall be:-

$$\frac{(\text{LIB}_3 + X) \times E}{4}$$

For this purpose:-

- LIB₃ shall mean the interest rate determined by the Issue Services Provider to be the interest rate for sterling deposits for a period of three months (or, in the case of the first Relevant Interest Period, on the basis of a linear interpolation between the interest rates for sterling deposits for a period of three months and sterling deposits for a period of four months) quoted on the Telerate Screen page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the first day of the Relevant Interest Period being, if more than one rate is quoted and the rates so quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted, provided that if, on any such day, no such rate is being quoted on the Telerate Screen page 3750 (or such other appropriate page) at such time and such date, LIB₃ shall mean such rate as the Issue Services Provider shall determine to be the rate at which it is offered sterling deposits of £10,000,000 in London for same day value on the first day of the Relevant Interest Period and for a period approximately equal thereto, in each case expressed as a percentage;
- X shall mean 4 per cent. per annum or such other fair commercial rate as may be agreed from time to time between the Issue Services Provider and the Issuer; and
- E shall mean the Expenses Amount or the Arrangement Fee, as the case may be (or such part thereof as is outstanding at the relevant time).

Terms used in this Schedule and not otherwise defined shall have the meanings ascribed to them in Condition 4(a) of the Notes (whether or not any Note remains