

RATING ACTION COMMENTARY

Fitch Upgrades Paragon 26 Class C Notes; Affirms 2 Other Paragon Deals

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Fitch Ratings - London - 13 Jun 2024: Fitch Ratings has upgraded Paragon Mortgages (No. 26) PLC's class C notes. The remaining tranches, and all notes in Paragon Mortgages (No. 27) PLC and Paragon Mortgages (No. 28) PLC, have been affirmed. A full list of rating actions is below.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Paragon Mortgages (No. 27) plc		
A XS2132036737	LT AAAsf Rating Outlook Stable Affirmed	AAAsf Rating Outlook Stable
B XS2132137337	LT AAAsf Rating Outlook Stable Affirmed	AAAsf Rating Outlook Stable
C XS2132137410	LT A+sf Rating Outlook Stable Affirmed	A+sf Rating Outlook Stable

D XS2132137683	LT	BBB+sf Rating Outlook Stable	BBB+sf Rating Outlook Stable
		Affirmed	
Paragon Mortgages (No. 26) PLC			
A1 XS1938530646	LT	AAAsf Rating Outlook Stable	AAAsf Rating Outlook Stable
		Affirmed	
A2 XS1938530729	LT	AAAsf Rating Outlook Stable	AAAsf Rating Outlook Stable
		Affirmed	
B XS1938531024	LT	AAAsf Rating Outlook Stable	AAAsf Rating Outlook Stable
		Affirmed	
C XS1938531370	LT	AA-sf Rating Outlook Stable	A+sf Rating Outlook Stable
		Upgrade	

[VIEW ADDITIONAL RATING DETAILS](#)

TRANSACTION SUMMARY

The transactions are the 26th, 27th and 28th in the Paragon series consisting of buy-to-let (BTL) mortgages originated by Paragon Mortgages (2010) Limited, Paragon Bank plc and other members of the Paragon Banking Group.

KEY RATING DRIVERS

Increasing Credit Enhancement (CE): The rating actions reflect Fitch's view that the notes are sufficiently protected by credit enhancement (CE) to absorb the projected losses at their ratings. Fitch expects the CE ratios in the transactions to continue building up due to the sequential amortisation of the notes. For example, CE for Paragon 26's class C notes has

increased to 17.4% from 16.4% since the previous review in August 2023, leading to today's upgrade.

Stable Asset Performance: The transactions' arrears have remained lower than those of similar transactions in the broader UK BTL sector. Paragon 26 had one-month plus arrears of 1.2% (0.77% at the last review) at the May 2024 interest payment date (IPD). Paragon 27 one-month plus arrears were 0.23% (0.13% as at the last review) at the April 2024 IPD and Paragon 28's were 0.17% (0.06% as at the last review) at the March 2024 IPD. Paragon's efficient use of rent receivership if arrears exceed two months has contributed towards the low level of delinquencies across the series.

Interest-only Concentration: The series have a material concentration of interest-only (IO) loans maturing within a three-year period during the lifetime of the transactions. This is 43.1% during 2040-2042 for Paragon 26, 55.8% during 2042-2044 for Paragon 27 and 56.7% during 2043-2045 for Paragon 28. Where a concentration is present, Fitch will derive the IO concentration weighted average foreclosure frequency (WAFF) and apply the higher of the IO concentration WAFF and the standard portfolio WAFF for each rating in the analysis. For these pools, Fitch has applied the FF based on the IO concentration WAFF.

Product Switches: Switches in repayment types are limited. Before the step-up date, there are few and generic limitations on the potential changes to loan interest rates upon switch. Fitch has therefore modelled extensive use of interest rate conversions to stress any excess spread in the asset portfolio and hedging interest-rate mismatches.

Rating Higher than MIR: Paragon Mortgage 26's class D notes' rating is three notches above the model-implied rating (MIR). Fitch expects the notes' MIR to be 'BBB+sf' in future model updates due to sequential amortisation, the proximity of the product switch end-date (August 2024) and the rating resilience shown by bespoke rating sensitivity analysis (whereby further product switches are not assumed).

RATING SENSITIVITIES

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

The transactions' performance may be affected by adverse changes in market conditions and the economic environment. Weakening economic performance is strongly correlated to increasing delinquencies and defaults that could reduce CE available to the notes.

Additionally, unanticipated declines in recoveries could result in lower net proceeds, which may make certain notes susceptible to negative rating action, depending on the extent of the decline in recoveries. Fitch found that a 15% WAFF increase and a 15% weighted average recovery rate (WARR) decrease would result in a downgrade of six notches in Paragon 26's class D notes, and one notch in Paragon 28's class B and D notes, and two notches in its class C notes. The sensitivity has no rating impact on Paragon 27's notes.

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 and, potentially, upgrades. A decrease in the WAFF of 15% and an increase in the WARR of 15% would result in upgrades of two notches for Paragon 26's class C notes, three notches for Paragon 27's class C and D notes and one notch for Paragon 28's class B notes and two notches for its class C notes.

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.

DATA ADEQUACY

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool and the transaction. Fitch has not reviewed the results of any third-party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Prior to the transactions closing, 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.

Prior to the transactions' closing, Fitch conducted a review of a small targeted sample of the originator'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, and together with any assumptions referred to above, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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APPLICABLE CRITERIA

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 07 Jul 2023\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 28 Nov 2023\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub. 28 Nov 2023\)](#)

[Global Structured Finance Rating Criteria \(pub. 19 Jan 2024\) \(including rating assumption sensitivity\)](#)

[UK RMBS Rating Criteria \(pub. 23 Feb 2024\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub. 05 Apr 2024\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Multi-Asset Cash Flow Model, v3.2.0 (1)

ResiGlobal Model: UK, v2.0.1 (1)

ADDITIONAL DISCLOSURES

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Paragon Mortgages (No. 26) PLC

UK Issued, EU Endorsed

Paragon Mortgages (No. 27) plc

UK Issued, EU Endorsed

Paragon Mortgages (No. 28) PLC

UK Issued, EU Endorsed

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