STANDARD & POOR'S

STRUCTURED FINANCE

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RMBS Presale Report

Paragon Mortgages (No. 8) PLC

£850 Million (Equivalent) Mortgage-Backed Floating-Rate Notes

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This presale report is based on information as of Oct. 5, 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. £ equiv.)	Available credit support (%)	Interest	Step-up margin	Optional call date	Legal final maturity
A1	AAA	238	11.90	Three-month British pound sterling LIBOR/three-month EURIBOR plus a margin	October 2010	October 2008	April 2035
A2	AAA	527	11.90	Three-month U.S. dollar LIBOR/three-month British pound sterling LIBOR/three-month EURIBOR plus a margin	October 2010	October 2008	April 2035
B1	A	85	1.90	Three-month British pound sterling LIBOR/three-month EURIBOR plus a margin	October 2010	October 2008	April 2044

**The rating on each class of securities is preliminary as of Oct. 5, 2004 and 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 principal.*

Transaction Profile	
Expected closing date	Oct. 27, 2004
Originators	Paragon Mortgages Ltd. and Mortgage Trust Ltd.
Arranger	Deutsche Bank AG, London branch
Security trustee	Citicorp Trustee Co. Ltd.
Substitute servicer	GHL Mortgage Services Ltd.
Underwriters	Deutsche Bank AG, London branch and JP Morgan Securities Ltd.
Sellers	Paragon Mortgages Ltd. and Arianty No. 1 PLC
Administrators and servicers	Paragon Finance PLC and Mortgage Trust Services PLC
Interest rate swap counterparty	JPMorganChase Bank
Currency swap counterparty	HSBC Bank PLC
Transaction account provider	National Westminster Bank PLC

Supporting Ratings	
Institution/role	Ratings
National Westminster Bank PLC as transaction account provider	AA/Stable/A-1+
JPMorganChase Bank as interest rate swap provider	AA-/Stable/A-1+
HSBC Bank PLC as currency swap provider	AA-/Stable/A-1+

Transaction Key Features	
Collateral	Portfolio of first-ranking residential mortgages secured over freehold, leasehold, or feudal properties in the U.K.
Principal outstanding (Mil. £ equivalent)	716.15
Geographic concentration - London and southeast (%)	45.98
Property occupancy (%)	98.65 buy-to-let, 1.35 owner-occupied
Weighted-average LTV ratio (%)	76.97
Average loan size balance (£)	87,753
Loan size range (£)	122 to 1,688,442
Weighted-average seasoning (months)	24
Weighted-average asset life remaining (years)	19.87
Weighted-average liability interest rate (%)	6.21
Redemption profile (%)	23.52 repayment, 76.48 interest-only
Excess spread at closing (%)	1.61
Cash reserve (%)	1.90, building up to 2.50 if arrears trigger is hit
Prefunding period	To first determination date
Prefunding amount	Approximately £90 million
Maximum LTV ratio (%)	98.38
Principal deficiency ledger	0
Percentage of jumbo loans (> £150,000 by number of loans)	14.53

Transaction Summary

Preliminary credit ratings have been assigned to the £850 million (equivalent) class A1, A2, and B1 notes to be issued by Paragon Mortgages (No. 8) PLC. The ratings reflect the transaction's sound payment structure, the ability of the servicers (Paragon Finance PLC and Mortgage Trust Services PLC) to perform their roles, and the cash flow mechanics of the transaction.

Further key considerations include the strong protection for the class A1 and A2 noteholders provided by a combination of the subordinate class B1 notes (10.0% of the notes issued), the first-loss fund (1.9% of the notes issued, building to 2.5% of the initial note balance if loans greater than 60 days in arrears exceed 3.0%), and excess spread to cover credit losses and income shortfalls. Strong protection for the class B1 noteholders is provided by the first-loss fund and excess spread to cover credit losses and income shortfalls.

Notable Features

This is Paragon Mortgages' ninth securitization of its buy-to-let mortgages. The main structural features of this latest transaction closely resemble those of the previous ones.

Strengths, Concerns, and Mitigating Factors

Strengths

- The average size of the loans in the portfolio is low at approximately £88,000 (considering that more than 45% of the mortgages are secured by properties in southeast England). The loans are, therefore, considered to have a lesser inherent risk than larger loans, which have increased sensitivity to changes in the borrowers' financial circumstances.
- The borrowers are of high quality, with no adverse credit history (e.g., no county court judgments).
- The sellers and administrators have an experienced and sound understanding of the buy-to-let market (98.65% of all mortgages in the initial portfolio are buy-to-let). This experience, coupled with strong underwriting standards, has kept arrears lower than the industry average.
- The transaction includes an efficient payment structure for investors, which provides support to all the notes through the use of triggers when the transaction is under stress. This is made possible because the cash reserve permanently increases if arrears greater than 60 days exceed 3%. Upon full redemption of the class A1 notes, the transaction allows principal available funds to be used to make pro rata redemption payments under the class A2 and B1 notes, subject to certain conditions.

Concerns and Mitigating Factors

- A concern with respect to the transaction is mandatory further advances. This is mitigated by the cap on liability of 16% of the notes to be issued. In addition, Standard & Poor's stress tests confirm that the mandatory further advances can be funded through available redemption funds.
- The nature of flexible mortgages (consisting of 16.94% of the pool) allows borrowers to prepay their mortgages, with amounts prepaid redrawable. These redraws are the obligation of the issuer. There is a concern that under certain severe circumstances, the issuer will have insufficient available funds to meet these obligations. For the provisional pool, the starting potential redraw amount is about 0.24% of the notes balance drawn amount. The potential redraw risk is covered through the redraw facility and additional amounts being conservatively sized in the cash flow analysis to cover any potential shortfall in the available issuer funds.

Roles of the Parties

Paragon Mortgages (No. 8) 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 Mortgages Ltd. (Originator)

Paragon Mortgages is a private company incorporated in England and is the originator of 83.06% of the mortgages in the portfolio, either directly or indirectly via broker intermediaries.

Paragon Mortgages has established itself as a specialist lender in the buy-to-let sector, and its operations and underwriting standards are robust. Paragon Mortgages targets the professional landlord, who will normally have had several years' experience in property investment and have more than three properties. These borrowers will be underwritten based on rental cover, usually set at a minimum of 130% above borrowing costs. In addition, as part of the underwriting process, a full assessment of the borrowers' financial history and status will be made. More than 80% of Paragon Mortgages' current loans are made to professional landlords.

Mortgage Trust Ltd. (Originator)

Mortgage Trust, an established mortgage lender, was acquired by the Paragon Group of Companies on June 30, 2003. Mortgage Trust now operates exclusively in the buy-to-let sector, and is the originator of 16.94% of the mortgages in the portfolio.

Mortgage Trust targets both the professional landlord and private investor landlords who purchase property to let usually for either long-term investment purposes or with the aim of becoming a professional landlord. Mortgage Trust underwrites similarly to Paragon Mortgages based on both rental cover and a borrower financial assessment. Private investors typically have between two and five properties, and approximately 41% of Mortgage Trust's originations are made to this segment. The remaining 59% of originations are made to professional landlords.

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 and Mortgage Trust Services PLC (Mortgage Administrators and Servicers)

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 Mortgages, and Mortgage Trust Services will be responsible for the day-to-day administration and ongoing servicing of the underlying portfolio of mortgages originated by Mortgage Trust. Paragon Finance and Mortgage Trust Services are 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 Mortgages' and Mortgage Trust's origination, underwriting, and valuation processes and Paragon Finance's and Mortgage Trust Services' collection and default management procedures (as administrators) 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 and Mortgage Trust Services are both 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.

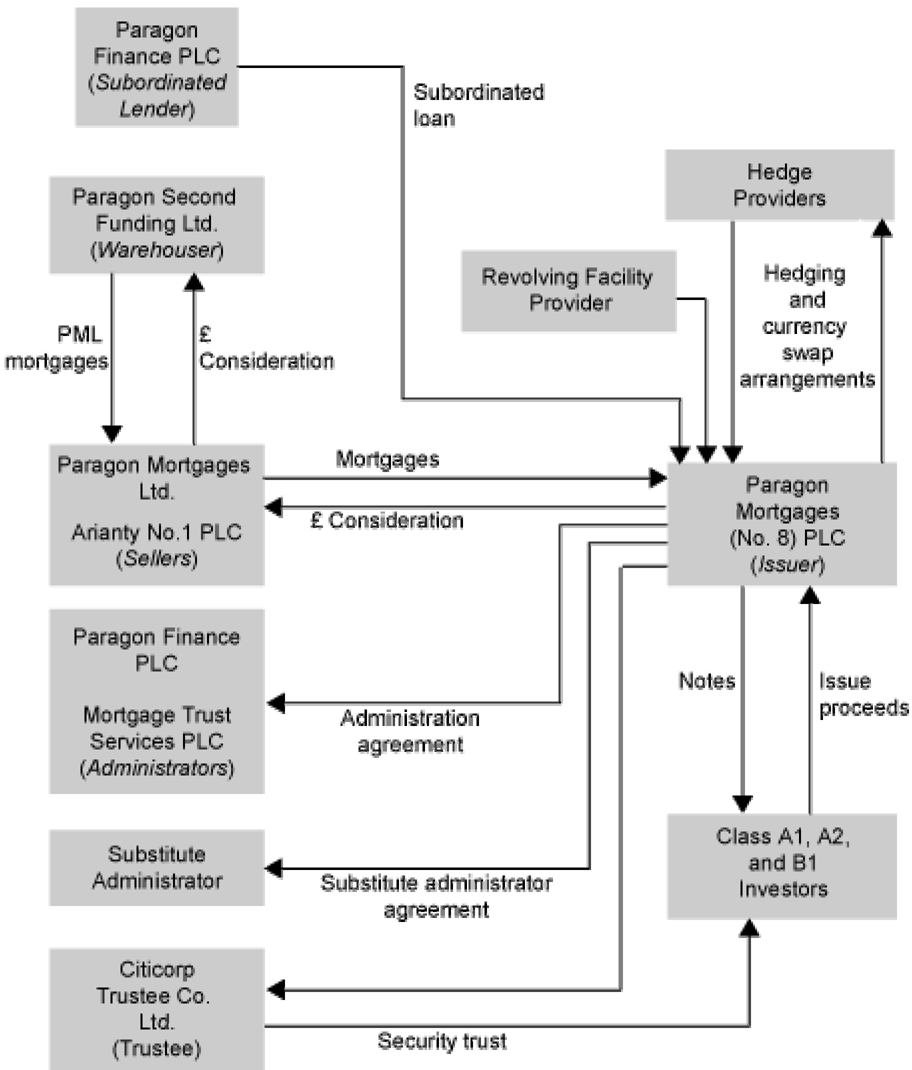
National Westminster Bank PLC (Transaction Account Provider)

NatWest (AA/Stable/A-1+) will provide the transaction account. Payments from Paragon Mortgages' borrowers will be paid into a collection account, which is also held with NatWest, and then transferred to the transaction account. Payments from Mortgage Trust's borrowers will be paid into a collection account held with Barclays Bank PLC, and then transferred to the transaction account held with NatWest.

Transaction Structure

At closing, and in accordance with the terms of a mortgage sale agreement, the issuer will acquire from Paragon Mortgages and Arianty No. 1 PLC the beneficial interest in certain mortgages, which will form part of the security for the notes (see "*Security Package*" below). The borrowers in respect of the mortgages are individuals or limited liability companies incorporated in the U.K., guaranteed by directors (see chart).

Paragon Mortgages (No. 8) PLC Structure



Part of the note proceeds will be used to establish a prefunding reserve in an amount of approximately £90 million**.** Until the first principal determination date, the issuer may use the prefunding reserve to purchase further mortgages from Paragon Mortgages, subject, among other things, to Standard & Poor's being satisfied that the purchases will not adversely affect the existing ratings on the notes. Any amounts outstanding in the prefunding reserve as of the first interest payment date in April 2005 will be applied in redemption of the notes.

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.

Conversion Mortgages

The administrator may (but is not obliged to) convert a borrower's mortgage into any other type of mortgage if certain conditions are met. These conditions include the following:

- No enforcement notice must have been given by the trustee.
- Conversion will not affect the then ratings on the notes.
- As of the closing date of the transaction, neither Paragon Mortgages nor Arianty No. 1 has failed to repurchase a mortgage for breach of representations in respect of that mortgage.
- The issuer must enter into a hedging arrangement (if required) to ensure that conversion will not affect the ratings on the notes.

Mandatory and Discretionary Further Advances

If the issuer is unwilling or unable to make a discretionary further advance, Paragon Mortgages or Mortgage Trust may decide to do so on the condition that this advance is secured by a second mortgage over the property in question.

The issuer may make discretionary further advances, subject to certain conditions, which include the following:

- Lending guidelines must be satisfied.
- If applicable, provisions of the Consumer Credit Act must be complied with.
- Discretionary further advances may not be made out of funds notified as being available for redemption of the notes between the principal determination date and the interest payment date.
- As a result of the discretionary further advance (and any mandatory further advance) the LTV ratio for the entire pool may not increase by more than 1% relative to the LTV ratio at closing.
- Principal available funds or drawn amounts under the subordinated loan must be sufficient to fund the discretionary further advances.
- As a result of the discretionary further advance, the final maturity of the mortgage may not extend beyond two years prior to the legal final maturity of the notes.
- No more than 2% of the mortgages by current balance may be more than three months in arrears.
- The first-loss fund must be at its required amount.
- There must be no debit balance on the principal deficiency ledger.
- There can be no breach by the borrower of mortgage conditions.

In all cases where Mortgage Trust makes a mandatory further advance (see below), the issuer is obliged to make funds available from the principal ledger to fund this advance. If there are insufficient funds in the principal ledger, the administrator may draw on funds under the subordinated loan agreement in an amount required to cover this deficiency.

In accordance with Standard & Poor's rating assumptions, as Paragon Finance does not have a sufficient rating, no reliance was placed on the mandatory further advances being financed out of the subordinated loan facility. Standard & Poor's has performed various cash flow stresses and is comfortable that the issuer's obligations with respect to the mandatory further advances can be funded out of available redemption funds.

No mandatory further advance will be made if the borrower breaches any of the mortgage conditions. The issuer will not agree to make a discretionary further advance if the sum of the discretionary and mandatory further advances is greater than 16% of the notes to be issued.

Redraw Risk

Of the mortgages to be acquired by the issuer, 16.94% are flexible mortgages. The terms of the flexible mortgages allow borrowers to redraw amounts that have been paid in excess of the scheduled mortgage payments. To the extent that a borrower prepays more than 20% (or lower as agreed at origination) of the scheduled principal balance at any time, the borrower is required to pay a commitment fee of 1% of the amount by which the prepayment exceeds 20%. Where redraw requests are validly made and funded, borrowers ultimately have the obligation to repay all amounts borrowed by the maturity dates of their mortgages.

Standard & Poor's has access to historical data and behavioral patterns with respect to the redraw component of the mortgages, which illustrates that the issuer should have sufficient available funds from prepayments and redemptions to enable it to fund potential redraws assuming that the behavioral patterns remain unchanged. Standard & Poor's notes, however, that past behavioral patterns may not necessarily be an accurate predictor of future trends in borrower behavior. Consequently, conservative estimates have been made as to the levels of potential redraw requests throughout the life of the mortgages.

As a further mitigant, a redraw facility in an amount equal to £4.25 million initially will be available to the issuer to fund potential redraw requests in the event that the issuer has insufficient funds to do so. Standard & Poor's views this level as adequate to cover any redraw requests that could arise, based on conservative assumptions.

The facility will terminate once the class A1 and A2 notes are redeemed.

In circumstances where the redraw requests cannot be funded, borrowers might bring claims for damages, which may ultimately affect the issuer's obligations to noteholders. As yet there exists no legal precedent to give clear guidance on how courts would treat potential claims against Mortgage Trust for redraw requests that are validly made but cannot be funded.

Note Terms and Conditions

The issuer is expected to issue three classes of notes, the class A1, A2, and B1 notes. The class A1 and A2 notes will rank senior to the class B1 notes. It is expected that the A1 notes will pay down within the first 18 months following the issue date.

Interest will be payable quarterly on the notes based on either three-month U.S. dollar LIBOR plus an annual margin, three-month British pound sterling LIBOR plus an annual margin, or three-month EURIBOR plus an annual margin. Note margins on all outstanding classes will double after October 2010.

Mandatory Redemption

The notes will be subject to mandatory redemption in part on each interest payment date, from available funds. There will be no mandatory redemption of the class B1 notes for the first five years from the closing date (unless both the class A1 and A2 notes have been fully redeemed). Thereafter, while the class A1, A2, and B1 notes remain outstanding, redemption will be applied pro rata, subject to:

- The ratio of the class B1 notes to the aggregate of the outstanding class A1, A2, and B1 notes being no less than twice the ratio at closing;
- There being a zero balance on the principal deficiency ledger;
- The minimum outstanding amount of the class B1 notes being 4.76% of the notes to be issued; and
- Arrears of more than three months being less than 7.5%.

Prefunding and Nonverified Mortgages

The issuer may purchase mortgages after the closing date and on or before the first principal determination date. These mortgages are known as nonverified mortgages and must meet certain criteria, including:

- Standard & Poor's confirmation that their inclusion will not have a negative effect on the then ratings on the notes;
- Satisfaction of certain conditions and lending criteria for mortgage purchases (e.g., the mortgages have made at least one payment);
- No occurrence of an administrator termination event; and
- That such mortgages have made their first payment.

On closing, the difference between the proceeds from the note issuance and subordinated loan drawing, and the closing mortgage portfolio and the first-loss fund will be credited to the prefunding reserve ledger.

Purchase of Preclosing Arrears

Based on the provisional pool data, the issuer will purchase mortgages with an approximate principal balance of £6.4 million that have an outstanding arrears amount in excess of one monthly payment. This outstanding arrears amount is known as "purchased preclosing accruals and arrears". The maximum principal amount of mortgages in arrears by more than one month that will be purchased by the issuer (to include mortgage purchases during the prefunded period) is £13 million. The increased mortgage arrears amount will not present an additional risk to the transaction, as the quality of the portfolio is required to remain similar to that of the closing mortgage pool.

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 October 2008 or at any interest payment date thereafter.

Final Redemption

If not already redeemed, the class A1 and A2 notes will be redeemed at their legal final maturity in 2035 and the class B1 notes will be redeemed at their legal final maturity in 2044.

Withholding Tax

The issuer will not be required to gross up for any withholding tax that might be imposed on the notes in future.

Protection Against Key Risks (Credit and Liquidity)

Mortgage Interest Rate Setting

The administrator will, on behalf of the issuer and trustee, set the rates of interest applicable on the relevant mortgages (other than the fixed-rate, base-rate-linked, or LIBOR-linked mortgages). The administrator must ensure that the weighted-average of the rate of interest applicable to the mortgages after taking into account all hedging arrangements and income received from the investment of funds in the transaction account is not less than 1.6% until October 2010 and 2.0% thereafter above the three-month pound sterling LIBOR applicable.

The administrator may set a lower rate of interest to the extent that the shortfall can be provided out of amounts available in the shortfall fund.

Subordinated Loan

Before closing, Paragon Finance will make available to the issuer a subordinated loan facility that will be drawn on closing. The facility will be used to establish the first-loss fund at 1.90% of the value of the outstanding notes (the "required amount") on closing.

The required amount will increase to 2.5% of the value of the outstanding notes on closing (by trapping issuer income) if arrears greater than 60 days exceed 3.0% of the outstanding collateral balance, and will remain at this level thereafter.

Paragon Finance may agree to make sufficient funds available to allow the issuer to make discretionary further advances to the extent that they cannot be funded out of the available redemption funds.

Additionally, Paragon Finance may (at its discretion) make further amounts available under the subordinated loan agreement. It might want to do this, say, to reduce the principal deficiency ledger to zero, and to bring the first-loss fund up to the required amount, thus enabling the issuer to fund the discretionary further advances from available redemption funds.

Further amounts may also be borrowed, for example, (i) to cover swap and hedging amounts that are junior in the priority of payments, (ii) to pay the issuer any prepayment fees waived by the administrator, (iii) to pay part of the purchase price in relation to discounts on the nonverified mortgages, and (iv) to fund the purchase of additional hedging instruments to the extent they cannot be funded out of the issuer revenue ledger in accordance with the priority of payments.

Amounts borrowed under the subordinated facility will be repaid in accordance with the priority of payments.

Collateral Details

The provisional mortgage pool of £716.15 million comprises 8,161 loans and was drawn up on Aug. 31, 2004. The loans in the provisional portfolio were originated by Paragon Mortgages and Mortgage Trust between 1997 and 2004 and have been administered by either Paragon Finance or Mortgage Trust Services (each a member of the Paragon Group of Companies) since origination.

Features of the provisional mortgage pool include the following:

- Each loan is secured by a first legal charge of a residential property in the U.K.
- Of the total pool, 98.65% are buy-to-let mortgages.
- Of the total mortgages, 23.52% are repayment mortgages and 76.48% are interest-only mortgages.
- Of the total loans, 55.56% were used for house and apartment purchases and 44.44% were used for remortgaging.
- The weighted-average LTV ratio of the mortgage pool is 76.97%.
- The average outstanding mortgage balance is £87,753.
- The largest concentration of mortgages by geographic area is in southeast England (including London) at 45.98%. There are no significant concentrations in other regions.
- The weighted-average term to maturity is approximately 19.87 years.

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.

A feature of the portfolio is the high level of different types of buy-to-let mortgages. These include professional and lettings by individuals through personal or corporate loans (usually through SPEs that are guaranteed by directors). The levels of underwriting by the originator are considered to be conservative, but the characteristics of the buy-to-let market create additional risks relative to a typical prime, owner-occupied mortgage portfolio (such as reliance on tenants to make timely rental payments), notwithstanding the weighted-average LTV ratio of this portfolio. These risks are mitigated through Paragon Mortgages' greater understanding of the market as a specialist lender, its conservative buy-to-let underwriting policy, and its predominance in the professional landlord sector.

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

- "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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