Paragon Mortgages (No.15) PLC

Paragon Mortgages Limited and Mortgage Trust Limited / Residential Mortgage Backed Securitisation / UK

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The ***definitive*** *ratings may differ from the* ***provisional*** *ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

Closing Date

[July 2007]

Lead Analyst

Louise Walewska
Senior Associate
+44 20 7772-8711
Louise.Walewska@moodys.com

Back-up Analyst

Kruti Muni
Vice President – Senior Analyst
+44 20 7772-8761
Kruti.Muni@moodys.com

Investor Liaison

New York

Brett Hemmerling
Investor Liaison Specialist
+1 212 553-4796
Brett.Hemmerling@moodys.com

Client Service Desk

London: +44 20 7772-5454
clientservices.emea@moodys.com

Monitoring

monitor.rmbs@moodys.com

Website

www.moodys.com

PROVISIONAL (P) RATINGS

Class	Rating	Amount in million	% of Total	Legal Final Maturity
A1	(P)**P-1**/(P)**Aaa**	USD[1,000]	[50.50%]	2039
A2	(P)**Aaa**	GBP[345]	[34.50%]	2039
B1	(P)**Aa2**	GBP[75]	[7.5%]	2039
C1	(P)**A2**	GBP[75]	[7.5%]	2039
Total		GBP[1,000]	100%	

The Class A2, B1 and C1 Notes may be issued in GBP, USD or Euro

The ratings address the expected loss posed to investors by the legal final maturity. [In Moody's opinion the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date.] Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

OPINION

Strengths of the Transaction

- The strong performance of prior loans secured on let property previously originated by PML and MTL. The arrears and losses observed to date in recent Paragon securitisations have been lower than in most prime mortgage backed transactions from major mortgage originators with the arrears (more than 1 month) in this pool currently standing at [0.08]%;
- The amount of available Excess Spread. Paragon have pledged to maintain the gross margin in the deal at a minimum level of 1.60% until the Note step up date, and 2.00% thereafter, or to inject additional funds into the transaction. Moreover, the transaction benefits from a [0.62]% Margin Reserve Fund that is funded at closing and on the date the prefunded loans are purchased;
- Highly experienced issuer and servicer with 52 previous transactions;
- Warm back-up arrangements with Homeloan Management Limited
- Fully funded non-amortising Reserve Fund
- Fully sequential amortisation

Weaknesses and Mitigants

- The Issuer is a non-orphan SPV, and may have additional risks as outlined below under "Transaction Structure";
- This transaction does not benefit from a separate liquidity facility. In mitigation, the transaction benefits from a liquidity ledger within the Reserve Fund that will be established based on an arrears trigger. The Issuer also has the ability to use principal receipts under the mortgage loans to meet its senior expenses obligations and interest due under the A Notes;

- Low weighted average spread on the assets due to a high portion of fixed rate loans ([74.48]%), mitigated by the Margin Reserve Fund.
- The provisional pool has concentrations, both at the borrower level, with the top 20% of borrowers comprising [6.97%] of the pool, and at the regional level, with [50.68%] of the pool located in Greater London and the South East. However, Moody's has incorporated these characteristics into the assigned ratings.
- The provisional pool has a WA seasoning of about [1.19] months.

STRUCTURE SUMMARY

Issuer:	Paragon Mortgages (No.15) PLC
Structure Type:	Notes backed by a pool of mortgages which have been sold to a special purpose vehicle ("SPV") incorporated in England.
Interest Payment Dates:	Monthly on the 15th of each month for the A1 Notes, with first IPD on 15th August 2007. Quarterly in December, March, June and September each year for all other Notes. First IPD is 15th December 2007 and thereafter the 15th following each quarter end or the next succeeding business day. Principal Payment Date is each quarterly IPD, in line with net principal redemptions on the pool.
Originator:	Paragon Mortgages Limited and Mortgage Trust Limited
Currency Swap Provider:	Barclays Bank PLC (**Aa1, Prime-1**)
Interest Rate Swap Provider:	ABN AMRO Bank N.V. (**Aa2, Prime-1**) & JPMorgan Chase Bank,N.A. (**Aaa, Prime-1**)
Servicer:	Paragon Finance PLC and Mortgage Trust Services PLC
Back up Servicer:	Homeloan Management Ltd
Credit Support:	Reserve fund, Excess spread and Note subordination
Trustee:	Citicorp Trustee Company Limited
Arranger:	J. P. Morgan Securities Ltd
Lead Managers:	JPMorgan, Barclays Capital, ABN AMRO

COLLATERAL SUMMARY (AS AT 18 MAY 2007)

Receivables:	First ranking mortgage loans made to individuals and corporates (with guarantees from individuals) secured on residential properties located in England, Wales and Scotland
Current Balance:	GBP [677,081,500]
Loan Count:	[4,619]
Current LTV:	Weighted average: [79.3]%, >= 90%: [3.88]%
Geographic Diversity[1]:	S.East including London [50.68]% S.West [10.21]%, Yorks & Humber [9.82]%, N.West [9.65]%, E.Midlands [3.93]%, Wales [3.72]%, Scotland [1.88]%, E.Anglia [3.63]%, W.Midlands [3.33]%, North [3.14]%,
Seasoning:	Weighted Average: [1.19] months
Delinquency Status:	>=1 to <=3 months: [0.08]%, >3 months: [0.00]%
Loan Purpose:	Remortgage [52.73]%, Purchase: [47.27]%,
Repayment Method:	Principal and Interest [4.00]%, Interest Only [96.00]%
Interest Rate Type:	Fixed [74.48]%, LIBOR Linked [3.29]%, Base Rate Linked [22.21]%, Variable [0.02]%
MILAN Aaa CE range:	[17.00]% - [17.40]% see Moody's Analysis below
Moody's expected loss range:	[0.90]% - [1.10]% see Moody's Analysis below

NOTES

Class	Rating	Note Coupon Rate	Initial Margin	Step Up Margin
A1	(P)**Prime-1,** (P)**Aaa**	1-month USD LIBOR	[•]%	[•]%
A2a	(P)**Aaa**	3-month GBP LIBOR	[•]%	[•]%
A2b	(P)**Aaa**	3-month EURIBOR	[•]%	[•]%
A2c	(P)**Aaa**	3-month USD LIBOR	[•]%	[•]%
B1a	(P)**Aa2**	3-month GBP LIBOR	[•]%	[•]%
B1b	(P)**Aa2**	3-month EURIBOR	[•]%	[•]%
C1a	(P)**A2**	3-month GBP LIBOR	[•]%	[•]%
C1b	(P)**A2**	3-month EURIBOR	[•]%	[•]%

[1] Using Moody's postcode table

OVERVIEW

Moody's assigns provisional ratings to Paragon Mortgages (No. 15) PLC

Moody's has assigned a provisional short term credit rating (P)Prime-1 to the A1 Notes and provisional long term credit ratings of (P)**Aaa** to the Class A1 and A2 Notes, (P)**Aa2** to the Class B1 Notes and (P)**A2** to the Class C1 Notes of the Issuer.

Moody's issues provisional ratings in advance of the final sale of securities, and these ratings only represent Moody's preliminary opinion. Upon a conclusive review of the transaction and associated documentation, Moody's will endeavour to assign definitive rating to the Notes. A final rating may differ from a provisional rating. The ratings of the Class A Notes are based upon an analysis of the characteristics of the mortgage pool backing the Notes, the protection the Notes receive from credit enhancement against defaults and arrears in the mortgage pool, and the legal and structural integrity of the issue.

The provisional ratings of the Notes address the expected loss posed to investors by the legal final maturity. The structure allows for timely payment of interest and ultimate repayment of principal at par on or before the rated final legal maturity date.

STRUCTURAL AND LEGAL ASPECTS

Transaction Structure

The Issuer is a non-orphan SPV, and may have additional risks

The Issuer is a special purpose vehicle incorporated in England and ultimately 100% owned by The Paragon Group of Companies PLC. Typically, UK MBS transactions rated by Moody's have featured an orphan SPV as issuer. The fact that the Issuer is not an orphan company introduces additional risks not typically found in UK MBS transactions:

– as a matter of UK tax law, it is possible that a subsidiary can be fixed with liabilities for tax of another member of its group. In this case, Moody's expects that an extensive range of undertakings will provide assurance that the chance of such secondary liabilities arising is remote.

– A company organised in the UK can be wound up by a shareholders' resolution. Whilst, in the circumstances, there might be little advantage to be gained by a liquidator of the Issuer's parent company by doing this, Moody's stress scenarios envisage such an attempt being made. Moody's is, however, satisfied that the combination of the non-petition covenants given by the parent companies in the Paragon group, and the share ownership structure of the Issuer, effectively eliminate this risk. The legal opinions confirm this point.

Class A1 Prime-1/Aaa rating

The A1 Notes have been assigned a provisional rating of (P)**Prime-1** as well as a provisional rating of (P)**Aaa**. The provisional short-term rating addresses the promise of receiving the principal amount and all the accrued interests at the next occurring "A1 Note Mandatory Transfer Date" falling on [15th June 2008]. Such short-term rating is primarily based on the short-term credit rating of JPMorgan Chase Bank, N.A..(Prime-1), the "A1 Note Conditional Purchaser." Under the terms of the Remarketing Agreement, prior to each Mandatory Transfer Date, the Remarketing Agent will act as an agent of the Issuer for the purposes of identifying third party purchasers of the A1 Notes. In case the Remarketing Agent is unable to remarket all the then outstanding A1 Notes, the A1 Conditional Note Purchaser has agreed to purchase all the A1 Notes still outstanding at the maximum reset margin agreed at closing. The A1 Note Conditional Purchaser will also have the obligation to buy all the A1 Notes outstanding in case a Remarketing Termination Event occurs (other than as a result of an Event of Default under the Notes). The proceeds from the sale of the A1 Notes to third party purchasers or to the A1 Conditional Note Purchaser will provide for the redemption of principal to the A1 Noteholders. If the A1 Conditional Note Purchaser fails to meet any of its obligations under the A1 Note Conditional Purchase Agreement or under the Remarketing Agreement, this will not constitute an Event of Default under the Terms and Conditions of The Notes.

The Class A1 Notes receive monthly interest payments from the swap, however, the SPV's obligation to the swap counterparty will be quarterly.

VAT Grouping

The Issuer is grouped with the rest of Paragon Group for VAT purposes, all of which are jointly and severally liable for VAT liabilities of all of the others in that group

In common with other Paragon transactions rated by Moody's (see the previous "Paragon Mortgages" deals), but unlike the vast majority of UK MBS transactions, the Issuer is grouped with the rest of the Paragon Group for VAT purposes. The VAT grouping means that services or goods provided between members of the VAT group are not subject to VAT (which would otherwise be payable on servicing fees); but, as a consequence, each member of the VAT group is jointly and severally liable for VAT liabilities of all other members of that group. A long standing arrangement is in place to mitigate this risk:

1) A Trust Account, held in the name of Citicorp Trustee Company Limited as trustee with [National Westminster Bank Plc (**Aa1**, **Prime-1**)], can be used by any member of the VAT group to meet group VAT liabilities should PFPLC (which, as representative member, is primarily liable for group VAT) fail to do so. PFPLC must maintain a minimum balance in the Trust Account equal to the greater of (1) GBP 120,000, (2) 1.2 times the actual VAT liability for the Paragon VAT Group in the last two accounting periods, or (3) 1.2 times the sum of the estimated VAT liabilities of the Paragon VAT Group for the current and next succeeding accounting periods.
2) If PFPLC fails to pay VAT due by it, or fails to maintain the minimum balance in the Trust Account), the Issuer will automatically be de-grouped; on a degrouping, no new VAT liabilities will arise but any that exist remain. The VAT authority cannot prevent a company from de-grouping, but it must be given 90 days' prior notice.

Credit Enhancement

Excess Spread, Margin Reserve Fund and the MMR

Excess Spread

The first layer of protection for investors in the Notes is the Excess Spread in the transaction which is the difference between:

1) the income receivable by the Issuer under the mortgage loans, the margin reserve fund, and its other investments and swap arrangements; and
2) the amounts of interest due by the Issuer on account of its various ongoing costs and expenses and under the Notes and swap arrangements.

Excess Spread is to be applied by the Issuer first in reduction of any principal deficiencies that have arisen following a principal loss on any of the loans, and then in increasing the First Loss Fund to the required amount. (Such losses are recorded on the Principal Deficiency Ledger, which is a ledger maintained for this specific purpose.)

Margin Reserve Fund

A [0.62]% Margin Reserve Fund will be funded at closing and at the date the prefunding loans are purchased. It will be distributed as part of the revenue waterfall over the first five interest payment dates. This fund reduces the shortfall of spread coming from the high portion of fixed loans in the pool ([74.48)%).

Minimum Margin Rate

As in previous Paragon deals, this transaction benefits from a Minimum Margin Rate ("MMR") which provides some guarantee as to the amount of Excess Spread that will be available. Under the MMR, the Administrator must set the rate on the variable rate mortgages in the portfolio so as to ensure that the weighted average interest of the portfolio plus income from early redemptions and any other income received by the Issuer is at least 1.60% in excess of the LIBOR rate applicable to the Notes prior to the Step Up date and 2.0% after the Step Up date. In addition, Paragon Finance PLC and Mortgage Trust Services PLC have the option to advance further amounts to the Issuer under the subordinated loan so as to cover any shortfall.

However, the credit enhancement value of this MMR mechanism is limited since, contrary to previous Paragon deals, there are hardly any variable rate loans in this pool, and using the subordinated loan is the only option to cover any shortfall.

Excess Spread depends on timing of principal losses

The credit enhancement value of Excess Spread also depends on the timing of principal losses. Subject to the Arrears Trigger and Liquidity Amount Trigger described below, excess Spread is available on a "use it or lose it" basis and so, if not used to reduce the Principal Deficiency Ledger or to top up the First Loss Fund, it is paid back to Paragon Finance PLC and Mortgage Trust Services Plc via the Subordinated Loan and other profit extraction mechanisms; which might occur before losses on the portfolio have shown through. The value of the Excess Spread was assessed by Moody's under a variety of adverse conditions.

First Loss Fund

Reserve Fund

The second layer of protection for investors in the Notes is the First Loss Fund (equal to [1.90]% of the GBP equivalent of the principal balance of the notes at closing (see below). This fund is available to pay interest and senior cost obligations of the Issuer and to make up any principal losses on the PDL should there be insufficient spread on the assets to meet these obligations.

Arrears Trigger

If at any time, more than 3% of the mortgages are more than 2 months in arrears, the Required Amount of the First Loss Fund will increase to [2.40] % through the capture of excess spread, and must be maintained at that level thereafter.

Liquidity Amount Trigger

If at any time while the Class A Notes are outstanding, more than [7.5%] of the mortgages are more than 3 months in arrears, then a liquidity ledger will be established in the reserve fund. Following the occurrence of the Liquidity Amount Trigger, such trigger will be deemed to have occurred until all the Class A Notes or all the mortgages have been redeemed.

Subordination of the Notes

Note Subordination, no pro rata amortisation

The third layer of protection for investors is the subordination of the principal balance of the B and C Notes ([15.00]% of the original Note Balance) to the A Notes. The notes will amortise sequentially starting with the Class A Notes, similar to Paragon 14 and contrary to earlier Paragon transactions, this transaction does not revert to pro rata amortisation.

Interest/Interest Subordination

Further protection is provided via the subordination of interest due under the Notes; on each interest payment date, all income (after paying certain senior costs and expenses) is allocated first to pay Class A interest then Class B1 interest and then Class C1 interest.

Interest/Principal Subordination

In addition, Class B1 and Class C1 Note interest may be subordinated to payment of principal under the Class A Notes. This occurs when outstanding principal losses exceed the then Class B1 and Class C1 Note balance; in these circumstances, payment of Class B1 and Class C1 interest is subordinated to the reduction of the PDL. Class B1 and Class C1 Note interest can be deferred until later interest payment dates if there are insufficient available funds (but includes interest roll-up).

Liquidity

The Issuer does not have the benefit of a separate Liquidity Facility

The Issuer does not have the benefit of a separate liquidity facility

However there are several layers of liquidity support available to Noteholders to counter temporary cashflow shortfalls. These may arise from delinquencies in the pool or interruptions in the servicing or cash collection functions.

Principal Paying Interest

Principal Paying Interest to meet senior expenses and interest due only

The Issuer has the ability to use principal receipts under the mortgage loans to meet its senior expenses obligations and interest due under the Class A Notes (but not the Class B1 or C1 Notes with the exception of the Liquidity Reserve Amount). This provides substantial protection for investors in the Class A Notes against a gradual deterioration in the arrears performance of the portfolio (but not the Class B1 or C1 Notes with the exception of the Liquidity Reserve Amount).

First Loss Fund

First Loss Fund

As described above, the First Loss Fund is available to cover interest shortfalls under the Notes. The First Loss Fund will be established by drawing under the subordinated loan and can be replenished by trapping available excess spread, drawing on the subordinated loan or in circumstances where a liquidity trigger is hit by trapping principal.

In addition, this transaction benefits from a liquidity ledger within the First Loss Fund.

Upon a trigger breach (described above), a liquidity ledger will be established in the reserve fund. The liquidity ledger will be equal to 1.6% of the then current outstanding balance of the Notes. The reserve fund available to cover credit losses (PDL) will have to be maintained at least at a minimum floor of [100] bps of the principal balance of the notes at closing.

The amount by which the First Loss Fund exceeds the Liquidity Amount is available to pay interest and senior cost obligations of the Issuer and to make up any principal losses on the PDL should there be insufficient spread on the assets to meet these obligations. The Liquidity Reserve can only be used to cover interest on the Notes and subject to the following conditions:

1) The Liquidity Reserve can only be used to cover Class B1 interest if the sum of such payments to cover Class A and B interest and the outstanding PDL does not exceed the outstanding Note balance on Class B1 and Class C1 notes.
2) The Liquidity Reserve can only be used to cover Class C1 interest if the sum of such payments to cover Class A, B1 and C1 interest and the outstanding PDL does not exceed the outstanding Note balance on Class C1 notes.

The value of the liquidity support provided by the First Loss Fund is reduced by the fact that the First Loss Fund is topped-up after payments have been made to investors in respect of any PDL balances that may arise within the structure. Moreover the First Loss Fund is not available to pay Class B1 and Class C1 Note interest when the outstanding principal losses exceed the then Class B1 and Class C1 Note balance, or to pay the Class C1 Note interest when the outstanding principal losses exceed the then Class C1 Note balance as described in "*Interest/Principal Subordination*" above.

This could materially reduce the liquidity available to investors in the junior Notes. However, Moody's believes that the First Loss Fund, which will be fully funded at closing, combined with the Liquidity Amount and trigger provides adequate liquidity support for the transaction.

Hedging

The MMR mechanism partially reduces basis risk arising from rate mismatches

The mortgage loans either charge interest at a floating rate set by reference to 3 month LIBOR ([3.29]% of the provisional pool), by reference to Bank Base Rate ([22.21]% of the provisional pool) or at a (temporarily) fixed rate ([74.48]% of the provisional pool). The MMR mechanism described above partially mitigates the basis risk that could arise from mismatch between BBR-linked loans and LIBOR-linked loans and from timing mismatch between Note LIBOR reset date, PML LIBOR-linked assets reset date and MTL LIBOR-linked reset date. However, as mentioned above, the protection afforded by this mechanism depends on the option of the Subordinated Lenders to advance further amount to the Issuer.

Further basis risk protection provided by interest rate swaps and caps

In order to further mitigate interest rate exposure, the structure also benefits from interest rate swaps provided by [JPMorgan Chase Bank, N.A., London Branch (**Aaa**, **Prime-1**)] and [ABN AMRO Bank N.V., London Branch (**Aa2, Prime-1**)] in respect of the fixed mortgages. The swap may require the Issuer to pay certain break costs to the swap provider in the event that mortgages default or prepay. But, payment of these amounts is deeply subordinated in the case where the swap provider is the defaulting party.

The Issuer is also obliged to enter into suitable arrangements with respect to the hedging of further fixed rate or capped rate loans as a result of conversion (see below).

Exchange rate hedging provided by a currency swap

The issuer will enter into USD and EUR Sterling cross currency swap with [Barclays Bank PLC] to hedge against interest rate risk and foreign exchange risk on the Class A1, Class A2b, Class A2c, Class B1b and Class C1b Notes.

COLLATERAL – REFERENCE PORTFOLIO

The pool consists of mortgage loans secured on let properties

Approximately [54.90]% of the provisional pool corresponds to mortgages originated by Mortgage Trust Limited. The remaining assets correspond to mortgage loans originated by Paragon Mortgages Limited.

In addition, the pool has concentrations, both at the borrower level, with the top 20% of borrowers comprising [6.97]% of the pool, and at the regional level, with [50.68%] of the pool located in Greater London and the South East.

In addition, [19.85]% of the pool valuations were conducted by Paragon's in-house valuers, rather than from a member of Paragon's panel of outside valuers. In mitigation there are representations & warranties that instructions given to valuers are complying with market practices.

The assets supporting the Notes consist of Buy-to-Let first mortgage loans secured on residential properties in England, Wales, Scotland and Northern Ireland. The most distinctive feature of recent transactions from Paragon has been the high proportion of mortgage loans secured on let, as opposed to owner occupied properties. Although Moody's believes that the performance of these types of products may exhibit more volatility over the economic cycle, we are comfortable with the transaction for the following reasons;

- The strong underwriting and origination procedures used by Paragon Mortgages Limited ("PML") and Mortgage Trust Limited ("MTL"),
- The strong performance of prior loans secured on let property previously originated by PML and MTL. The arrears and losses observed in recent Paragon securitisations have been much lower than in most prime mortgage backed transactions from major mortgage originators.
- The level of credit enhancement available in the deal.

Flexible loans

About [3.4%] of the loans in the provisional pool are flexible loans (with the expected final pool to be about the same). The flexibility refers to the borrower's ability to redraw principal that is prepaid ahead of its agreed amortisation.

The borrowers may redraw the principal either by withdrawing the relevant amount from their "Flexible Mortgage Account" or by requesting to capitalise their monthly interest payments. In this second case, the capitalisation of interest would result in a credit to the principal deficiency ledger that could be subsequently reduced only through the application of principal redemptions to the revenue priority of payments.

According to the terms of the flexible mortgages, the borrowers will be charged a commitment fee of 1% per annum on the prepaid principal amounts that exceed 20% of the original mortgage balance. The borrowers can still prepay above that limit without incurring a commitment fee provided they cancel their ability to redraw prepaid amounts above 20% of their current mortgage balance. This mechanism should considerably discourage borrowers from running large balances of principal prepayments.

In consideration of all the above points, the probability of redraws exceeding principal collections and excess spread is very low.

In addition, to the extent there are insufficient principal collections or excess spread, the Subordinate Lenders are required to make available to the Issuer further amounts under the subordinated loan agreement to meet its obligation with regard to the redraws.

In the unlikely event that a borrower were to be awarded damages arising from not being provided a redraw, they would be entitled to offset them against other amounts owed under their loan, irrespective of when the redraw was requested and whether or not the loans transfer had been perfected or notified. In mitigation, such damages would be limited to the opportunity cost of seeking alternative sources of financing, and borrowers would be obliged to seek alternative finance at market rates in order to claim successfully.

CONVERSIONS AND FURTHER ADVANCES

The Servicer may, subject to certain pre-conditions, alter payment method or convert loans

The Servicer may alter the payment method between repayment and interest only and may also convert fixed rate into floating rate mortgages and vice versa. However, there are pre-conditions to any conversion between interest charging methods: for example, if required to maintain the ratings on the Notes, appropriate hedging must be in place, no conversion must extend the final maturity date of the relevant mortgage beyond 2 years prior the legal final maturity of the Notes.

All further advances are subject to a cap

The Issuer may use principal receipts from the mortgage portfolio to make further advances to the mortgage borrowers, but the cumulative amount of Discretionary and Mandatory further advances (excluding MTL redraws) cannot exceed [16]% of the original balance of the Notes issued. Discretionary further advances are subject to the Principal Deficiency Ledger having no debit and the First Loss Fund being equal to its required amount.

ORIGINATOR, SERVICER AND DUE DILIGENCE

Paragon Mortgages Limited, the originator of the Paragon loans and Paragon Finance PLC, the administrator of the Paragon mortgages, are both wholly owned subsidiaries of the Paragon Group of Companies.

Mortgage Trust Limited, the originator of the MTL loans, was registered in England and Wales with private company limited liability status on August 1986. On 30th June 2003 the entire share capital of MTL was acquired by the Paragon Group of Companies. Mortgage Trust Services plc, the administrator for the MTL loans, is a wholly owned subsidiary of Mortgage Trust Limited and ultimately part of the Paragon Group of Companies.

Moody's believes that Paragon has a well developed servicing business with a track record of successful collections and arrears management in the United Kingdom. In addition, Homeloan Management Ltd is the servicer of last resort.

Moody's conducts regular periodic due diligences of originators and servicers in order to review origination processes and company strategies and has visited Paragon in June 2007. During this visit Moody's has become comfortable with the underwriting and servicing guidelines and procedures at Paragon.

MOODY'S ANALYSIS

To determine the provisional ratings on the tranches of Notes, Moody's has used the following methodology, which is applied to most European residential mortgage backed securities markets.

Loss Distribution

Moody's analysis focused broadly on:

- ***the collateral***
- ***the market sector***
- ***the originator***
- ***the economic environment***
- ***the structure used for the transaction***

The first step in the analysis is to determine a loss distribution of the pool of mortgages to be securitised. Because of the large number of loans and supporting historical data, Moody's uses a continuous distribution to approximate the loss distribution: the lognormal distribution.

To determine the shape of the curve, two parameters are needed: the expected loss and the volatility around this expected loss number. These parameters are found by looking at two important data sources: historical loss data and the loan by loan model.

Moody's has been provided with loss data with respect to the Originators' mortgage books, and this is used in addition to other applicable and relevant data in order to extrapolate expected losses for the loan pool. Examples of data include market and sector wide performance data, the performance of other securitisations, and other originators' data.

To obtain the volatility under a "stress" scenarios, Moody's will also take into account historical data, however, observed historical volatility may not be significant (given insufficient data points, or incomplete data), and in addition may not be representative for the future as it is based on the previous economic environments experienced.

Moody's determines a number representing the enhancement which would be required for a pool of mortgages to obtain a rating consistent with **Aaa** under highly stressed conditions. This number (the "Aaa CE" number) is produced by using a loan-by-loan model, which looks at each loan in the pool individually and based on its individual characteristics such as loan to value or other identified drives of risk, will produce a benchmark CE number. This assumes stressed recovery rates (through house price decline), time to recovery, interest rates and costs to foreclosure. The weighted average benchmark CE number will then be adjusted according to positive and negative characteristics of each loan or of the pool as a whole to produce the "Aaa CE" number.

The Aaa CE number and the expected loss number are the basis of committee discussions and are used to derive the lognormal distribution of losses of the pool.

The standard deviation of the distribution is found by setting the probability of a loss greater than the expected loss compliant with the idealised expected loss target of the Aaa CE number.

Modelling assumptions for the transaction

The key parameters used to calibrate the loss distribution curve for this portfolio include:

– a **Milan Aaa CE** range of [17.00]% - [17.40]% and
– an expected loss range of [0.90]% - [1.10]%

Tranching and Rating of Notes

Having obtained the loss distribution of the pool, a cash flow model is used to assess the impact of structural features of the transaction, including the priorities of interest and principal, liquidity, the value of excess spread.

The sum of the loss experience per note class weighted by the probability of such loss scenario determines the expected loss on each tranche and hence the rating, which is consistent with Moody's target losses for each rating category.

The provisional rating of the Class A Notes is therefore based on an analysis of:

– The characteristics of the mortgage pool backing the Notes;
– The relative roll-rate levels and arrears in this type of lending compared to conventional lending;
– Sector-wide and originator specific performance data;
– Protection provided by credit enhancement and liquidity support against defaults and arrears in the mortgage pool;
– The legal and structural integrity of the Issue.

The provisional ratings of the Class B1 Notes and Class C1 Notes are based on the above factors, and also on an assessment of the extent of their subordinate position within the structure.

RATING SENSITIVITIES AND MONITORING

Moody's will monitor the transaction on an ongoing basis to ensure that the transaction continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the ratings will be publicly announced and disseminated through Moody's Client Service Desk.

Moody's will also publish a quarterly Performance Overview for this transaction, which will contain summarised information about the asset and note performance, as well as any other material changes affecting the Notes.

RELATED RESEARCH

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports available on Moodys.com. Performance Overviews are currently also available for all the previous transactions of the Paragon Mortgages series.

Rating Methodologies

– Moody's Approach to Rating UK Residential Mortgage-Backed Securities, May 1998 (SF6471)
– The Lognormal Method Applied to ABS Analysis, July 2000 (SF8827)

Special Reports

– Default and Recovery Rates of Corporate Bond Issuers, February 2002 (SF10134)
– Performance of UK Residential Mortgages 1985-2000, September 2002 (SF15682)

Performance Review

– UK Non-Conforming RMBS Q1 2007 Indices (SF99911)
– UK Non-Conforming RMBS Q2 2004 Performance Review, October 2004 (SF44919)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

SF101649isf