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# Structured Finance

RMBS/UK
Presale Report

# Paragon Mortgages (No. 15) PLC

## Expected Ratings*

| Class | Amount (GBP eq m) | Final Maturity | Rating[a] | C/E (%) |
|---|---|---|---|---|
| A1 | 505.00 | 2039 | AAA/F1+ | 16.90 |
| A2 | 345.00 | 2039 | AAA | 16.90 |
| B | 75.00 | 2039 | AA | 9.40 |
| C | 75.00 | 2039 | A | 1.90 |

[a] Each rated class in this transaction has a Stable Outlook


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Fitch's collateral analysis is based on the maximum drawable balance for the flexible mortgages and consequently the pool strats could differ slightly from those in the offering circular.

* Expected ratings do not reflect the final ratings and are based on the information provided by the originator as at 18 June 2007. Final ratings are contingent on final documents confirming to information already received as well as satisfactory legal opinions.

Click here for **Presale Model**

Click here for **Deal Compare**

## ■ Summary


This GBP1,000m-equivalent transaction is a securitisation of prime buy-to-let residential mortgages originated in the UK. Fitch Ratings has assigned expected ratings to the notes to be issued by Paragon Mortgages (No. 15) PLC (the issuer or PM15) as indicated at left.

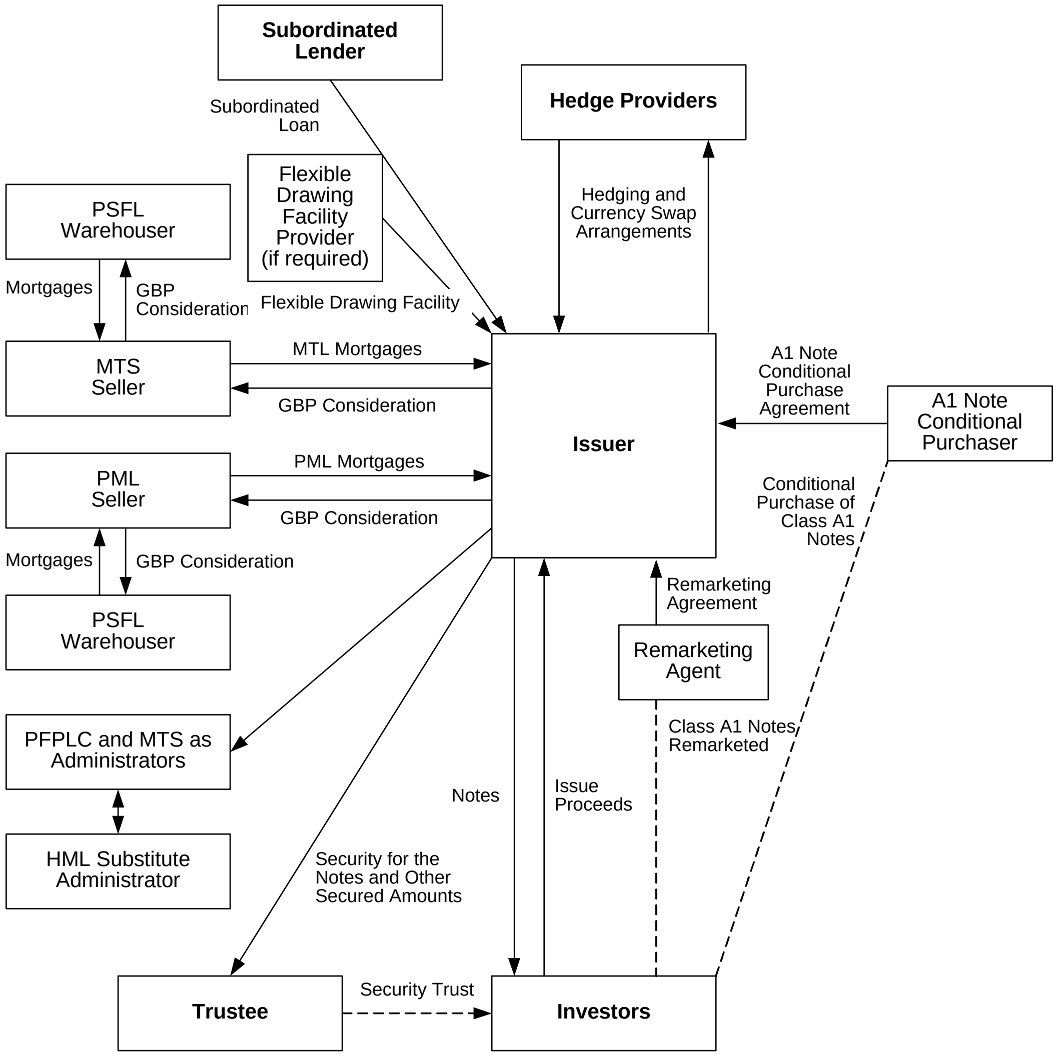
The expected ratings are based on the quality of the collateral, available credit enhancement, the underwriting processes of Paragon Mortgages Limited (PML) and Mortgage Trust Limited (MTL), as well as the servicing capabilities of Paragon Finance PLC (PFPLC) and Mortgage Trust Services PLC (MTS) in relation to both the PML and MTL mortgages. PFPLC and MTS are both wholly owned subsidiaries of The Paragon Group of Companies PLC (the Paragon Group). The expected ratings are also based on the capabilities of Homeloan Management Ltd (HML) as standby administrator and the sound legal structure of the transaction. Credit enhancement for the class A1 and A2 notes initially totals 16.90%, which is provided by the subordination of the class B notes (7.50%), the class C notes (7.50%) and a reserve fund of 1.90%, which will be fully funded at closing. The reserve fund will build up to 2.40% on the occurrence of certain arrears triggers.

Approximately 54.91% of the loans by value in the provisional mortgage pool have been originated by MTL and 45.09% by PML. In the context of residential mortgage lending, PML specialises in the origination of buy-to-let loans to "professional" landlords, defined as borrowers with at least 12 months' experience managing at least three rental properties. MTL specialises in lending to "private investor" landlords, with smaller portfolios. All of the loans in the reference portfolio are secured on investment properties belonging to such borrowers.

The group offers an array of financial products, ranging from personal, retail point-of-sale and auto loans to prime residential mortgages. This is the group's 15th transaction in the Paragon Mortgages series.

To determine appropriate credit enhancement levels, Fitch analysed the collateral using its UK Residential Mortgage Default model as a benchmark and adjusted it to account for the additional risks associated with buy-to-let lending (see research, "*UK Residential Mortgage Default Model Criteria Report*", 5 February 2007, available on *www.fitchratings.com)*. Fitch also modelled the cash flow contribution from excess spread using its European RMBS cash flow model (see research, "*A Guide to Cash Flow Analysis for RMBS in Europe*", 20 December 2002 available on www.fitchratings.com) and the default and recovery assumptions indicated by the default model. The cash flow test showed that each class of rated notes could withstand loan losses at a level corresponding to the related stress scenario without incurring any ultimate principal loss or interest shortfalls on interest payment dates.

## Structure Diagram




Source: Transaction documents

## Special Reports

The following special reports provide additional details on Fitch's rating approach to, and performance of, the RMBS market and all are available on www.fitchratings.com:

- *"Fitch Issuer Report Grades May 2007 Update"*, dated 31 May 2007;
- *"Still Safe as Houses? – Through the Keyhole of UK RMBS"*, dated 5 February 2007;
- *"European Residential Mortgage Originator Review Criteria"*, dated 5 February 2007;
- *"UK Residential Mortgage Default Model Criteria"*, dated 5 February 2007;
- *"Rent Review 2007 - An update on the UK Buy-to-Let Market"*, dated 5 February 2007;
- *"Revised MVD Assumptions for UK RMBS Transactions"*, dated 9 August 2006;
- *"European Mortgage RMBS, Housing & Credit Newsletter"*, dated 21 March 2007;
- *"Calculation Errors in European Structured Finance"*, dated 18 April 2006;
- *"Origination and Servicing Standards in the UK Residential Mortgage Market"*, dated 12 July 2005;
- *"Rising Stars? Fitch Issuer Report Grades H1 2005 Update"*, dated 7 June 2005;
- *"The Weakening Outlook and Growing Political Risks Facing UK Housebuilders"*, dated 22 November 2004;
- *"A Guide to Cash Flow Analysis for RMBS in Europe"*, dated 20 December 2002.

## Credit Committee Highlights

### Cash Flow Analysis

- **A1 Notes:** the class A1 notes are intended to constitute eligible securities for purchase by money market funds under Rule 2a-7 of the Investment Company Act of 1940, and will be remarketed by the remarketing agent annually, beginning on the 15 June 2008 interest payment date. J.P. Morgan Securities Ltd. will be the remarketing agent and JPMorgan Chase Bank, N.A. (rated 'AA-/F1+') will be the A1 conditional note purchaser. If the remarketing agent is unable to identify sufficient third-party purchasers for all the outstanding A1 notes at or below the maximum reset margin of [•], the conditional note purchaser would be required to procure the purchase or otherwise acquire the outstanding A1 notes. The 'F1+' rating assigned to the notes is hence dependent on the Short-Term Rating of the A1 conditional note purchaser. Given the legal final maturity of 2039, the class A1 notes are also rated 'AAA'. *Comparison:* Paragon Mortgages No. 14 (PM14) also had a similar class A1 note where The Royal Bank of Scotland PLC (rated 'AA+/F1+') was the remarketing agent and the conditional note purchaser. *Treatment:* in its cash flow analysis, Fitch has used the maximum reset margin on the A1 notes after the first year.

- **Minimum WA Margin:** the administrators have adopted a threshold interest margin mechanism in this transaction designed to ensure a minimum weighted average (WA) contractual margin over three-month Libor (including income or expenses from any hedging, investments, redemptions and any discount reserve releases) on the reference portfolio is at least 1.6% and will step-up to 2.0% in June 2012. Should the WA margin fall below these levels, the mortgage administrator will, under the mechanism, be obliged to increase the rates on variable-rate loans in the pool or make a drawing on the subordinated loan such that the required levels are met. *Comparison:* PM14 also had an identical minimum threshold margin mechanism. *Treatment:* Fitch has not given any credit for the threshold interest margin mechanism in its analysis.

- **Discount Reserve:** some 25.13% of the provisional pool by value consists of loans with "teaser" rates (discounted loans) that are below the stabilised rates to which they will revert at the end of the introductory period. These loans, along with the fixed rate loans which are also on an initial teaser rate, substantially reduce the margin on the loans in the initial period. To partially make up the difference between the initial margin and stabilised margin, a cash amount equivalent to [0.62]% of the notes issued will be held in the discount reserve. This amount will be released in the revenue waterfall in the first four distributions. *Comparison:* some 31.90% of loans in PM14 were discounted loans and most of the other loans were fixed rate. The deal featured a similar partially funding discount reserve. *Treatment:* Fitch has modelled the discount reserve and expected run-off of the teaser rates in its cash flow analysis.

- **Unhedged Risk:** the majority of the discounted loans pay rates at a margin over three-month Bank Base Rate (BBR). The majority of the loans with an initial fixed rate will revert to a rate linked to Libor. Although the notes also pay a margin over three-month Libor, the three-month Libor basis for the notes will reset on 15 March, June, September and December, whereas the three-month Libor basis for the assets will reset on 1 January, April, July, and October for the PML loans, and 1 March, June, September and December for the MTL loans. The transaction does not incorporate a swap to hedge this mismatch between the rate reset dates. *Comparison:* the basis risk was unhedged in PM14 as well. *Treatment:* Fitch has factored this into its cash flow analysis.

- **Reserve Fund:** the reserve fund (or first loss fund) will not amortise. The initial and target reserve fund will be 1.90% of the initial note balance. The reserve fund will step up to 2.40% if 60+ day delinquencies exceed 3% of the outstanding balance of the loans. Fitch has incorporated the reserve fund into its cash flow analysis. *Comparison:* PM14 had an identical reserve fund provision with an initial reserve fund of 1.90% that stepped up to 2.40% if 60+ day delinquencies exceeded 3% of the outstanding balance. *Treatment:* Fitch has incorporated the impact of reserve fund its cash flow analysis.

- **Liquidity Ledger:** PM15 benefits from a liquidity ledger within the reserve fund. Upon a trigger breach, where 7.5% of the portfolio is more than three months in arrears, a liquidity ledger will be established in the reserve fund. At that time it will equate to 1.6% of the then-current outstanding balance of the notes through trapping available excess spread or, if this is not available, by trapping principal through the available redemption funds. It would be available to cover interest/swap payments on the notes, subject to certain conditions. *Comparison:* PM14 also had a Liquidity ledger on the same terms. *Treatment:* Fitch has incorporated the impact of the liquidity ledger in its cash flow analysis.

- **Redraw Facility:** some 3.41% of the loans in the provisional pool comprises of flexible loans. This product affords borrowers the ability to prepay a portion of their principal balance at any point (monthly, annually, etc) and use the prepaid amount as a line of credit that they can redraw at any point in the future. Unlike the previous transaction, PM15 will not have a redraw facility to fund any redraw amounts in the event of not enough principal funds being available, unless considered necessary based on the composition of the final pool. *Comparison:* PM14 had a higher proportion of flexible loans at 11.67%. It had a redraw facility provided by Barclays Bank PLC to fund the shortfalls in redraw amounts. *Treatment:* Fitch has taken into account the lack of redraw facility in its cash flow analysis. Given the relatively low proportion of flexible loans, and based on past performance data, it believes that the possibility of shortfall in principal funds to grant mandatory further advances is remote.

- **Early Redemption Charges (ERCs):** in this transaction, ERCs collected from borrowers who prepay their loans will flow through the revenue waterfall. Since there is doubt over the legal enforceability of the ERCs, Fitch does not give any benefit to these in cash flow modelling. *Comparison:* in PM14 also, ERCs were included in the revenue waterfall.

### Asset Analysis

- **Buy-To-Let Product:** the portfolio consists entirely of prime buy-to-let loans. Fitch considers loans on buy-to-let properties to be inherently more susceptible to default than those secured on an owner-occupied property, simply because the borrower is more likely to default on a loan secured on an investment property than on one secured on their own home. *Comparison:* previous Paragon transactions, including PM14, also consisted entirely of buy-to-let loans. *Mitigated by:* the base default probability for buy-to-let loans has been increased by 15% in Fitch's default analysis. The risk of buy-to-let loans is further mitigated by the fact that most of the PML borrowers are considered professional landlords, with a proven history of maintaining a portfolio of investment properties. Around 75% of the MTL borrowers are viewed as private investor landlords making a long-term investment in the property market. For additional information about Fitch's view on this market in the UK please see *"Rent Review 2007 - An update on the UK Buy-to-Let Market"*, dated 5 February 2007 and available at www.fitchratings.com.

- **Underwriting:** as a result of its preference to work with professional landlords, PML focuses on the credit profile of a borrower and their demonstrated ability to manage a portfolio of properties. The underwriting methodology therefore begins with a full assessment of the borrower's underlying credit position before a decision on lending is made, rather than relying solely on a rent-to-interest coverage ratio. Only when PML is comfortable with the borrower's credit profile is an assessment of each property made, based on a combination of LTV (loan-to-value) analysis (normally 85%) and rental interest coverage ratio "ICR - generally a minimum of 125%, but 100% in some circumstances). The ICR is calculated over the Paragon reference rate (reference rate), which is currently at 5%.

- **Paragon Reference Rate:** an important factor in deciding to advance a mortgage on a buy-to-let basis is the estimate of achievable rent and whether this will be sufficient to cover the monthly payments on the mortgage. Paragon, when originating loans, calculates the mortgage payment on an interest only basis using the Paragon reference rate. This rate has been unchanged at 5% over the past year in spite of four rate rises for BBR. Though Paragon's underwriting standards are generally robust, Fitch believes since the Paragon reference rate has not been revised several increases in BBR, its effective ICR requirement is now lower compared to previous paragon deals. *Treatment:* Fitch calculates ICR using the stabilised interest rate of the loan after the end of any introductory teaser rate and hence its calculations are not dependent on the Paragon reference rate. Fitch's ICR calculation reflects the effective lowering of ICR and this has been an important factor in determining expected level of defaults for the pool.

- **Historical Performance:** the buy-to-let product lacks a complete historical track record through a recession in the UK, although almost all PML and MTL transactions have performed relatively well. Only two outstanding deals, Paragon Mortgages No.7 & 8, have suffered losses on sold repossession. These losses are less than

7bps of the aggregate of the initial deal sizes. For arrears performance, please refer to the graphs in the transaction summary sheet at the end of this report.

- **Interest Coverage Ratio:** for all originations, PML & MTL calculate ICR using the Paragon reference rate (generally a minimum of 125%, but 100% in some cases). The Paragon reference rate, was 5% at the time of writing. The WA ICR, based on the stabilised margin after the end of a teaser period as calculated by Fitch, is 0.96 for the provisional pool. *Comparison:* PM14 had a higher WA ICR of 1.01. *Treatment:* Fitch has incorporated the impact of ICR based on stabilised rates charged on loans after the end of the teaser period in its default analysis. Moreover, unlike competitors, the ICR calculation is only one element of Paragon's underwriting process. Paragon additionally evaluates each borrower's financial position.

- **Flexible Mortgages:** borrowers of flexible mortgages are entitled to take advantage of their flexible features, including redrawing and payment holidays, to the extent they have prepaid. Fitch believes that if borrowers experience financial distress, some may redraw and postpone payments prior to eventual default. *Comparison:* PM14 had a higher proportion of flexible mortgages *Treatment:* Fitch loss severity assumptions in its default analysis are based on the maximum drawable balance to account for this risk.

- **Illiquid Properties:** some 8.79% of PM15 loans fall into Fitch's jumbo and small categories, which represent property values at the less liquid ends of the property market. *Comparison:* This is marginally higher than the 8.53% seen in PM14. *Mitigated by:* Fitch applies a multiple to the market value decline (MVD) assumption for these properties in its loan-by-loan analysis, since the agency believes there is less liquidity at the low- and higher-value ends of the market.

- **Concentration Risk:** there is a degree of "granularity" in the pool owing to clusters of properties in certain districts favoured by professional and private investor landlords. It is also possible that a single professional borrower could accumulate a substantial number of mortgage loans from Paragon, each backed by a property and a corresponding stream of rental income. While this represents a potentially increased exposure to a single obligor, the normal evolution of an investment portfolio over time means that all its constituent loans are unlikely to find themselves in a single securitisation issue. *Comparison:* granularity was also a concern for past Paragon transactions, including PM14.

## ■ Credit Structure

The financial structure of the transaction is designed to provide differing degrees of credit enhancement to the note tranches. The class A notes will be protected firstly by any excess spread, secondly by the reserve fund 1.90% and thirdly by the subordination of the class B and class C junior tranches (15.0%). The class B tranche will be supported firstly by any excess spread and secondly by the reserve fund and thirdly by the class C tranche (7.5%). Whereas the class C tranche will be supported by available excess spread and the reserve fund.

The reserve fund will also be available to cover interest shortfalls and losses, subject to certain restrictions on paying interest on the junior notes (see *Reserve Fund* below). The reserve fund will build to 2.40% in the event a certain level of arrears is exceeded.

Available residual excess spread is used to replenish the reserve fund (if drawn) to its required amount on every payment date before the remainder returns to the originator.

### Revenue Priority of Payments

Payments received by PM15 are split into revenue and principal and are, subject to certain exceptions (see *Principal Used for Senior Interest Liquidity* below), paid via separate waterfalls. All revenue received on the issue (for example, borrower interest payments, swap payments and interest earned on cash in the transaction account prior to the interest payment date and ERCs) will be applied on each payment date in the following priority of payments:

1. Amounts payable to the trustees, tender agent, A1 conditional note purchaser, remarketing agent and subordinate servicer;
2. senior servicer fees;
3. pro rata, amounts due and payable: (i) under the basis hedge agreement, (ii) class A1, A2 currency swap agreements; (ii) as interest to class A2 noteholders;
4. should a debit balance recorded on the principal deficiency ledge ("PDL") exceed the balance of the then-outstanding class B and C notes, an amount applied in extinguishing that excess;
5. pro rata, amounts due and payable: (i) under the class B currency swap agreements; and (ii) as interest to the class B noteholders;
6. should the debit balance recorded on the PDL exceed the balance of the then-outstanding class

C notes, an amount applied in extinguishing that excess;

7. pro rata, amounts due and payable: (i) under the class C currency swap agreements; and (ii) as interest to the class C noteholders;
8. VAT to be paid, if any;
9. amounts applied in extinguishing a debit balance on the PDL;
10. amounts required to replenish the reserve fund;
11. pro rata, any withholding compensation amount and any hedge provider subordinated amount;
12. provision for a reserve to fund any purchase of caps, other hedging instruments in the next period, the subordinated servicer fee, issuer profit, any subordinated redraw facility amounts and deferred purchase consideration.

Items (4) and (6) above ensure that, should the debit balance recorded on the PDL exceed the balance of the then-outstanding subordinate notes, any PDL debit balance corresponding to the class A or B notes respectively, will be reduced to zero prior to the payment of interest on any notes subordinate to each respective class.

### Principal Used for Senior Interest Liquidity

Principal receipts may be used to pay interest on the class A notes in the event that it cannot be paid from excess spread and amounts available in the reserve fund. The PDL will be debited by the amount used to pay senior interest. This debit balance will then be repaid at the relevant position in the revenue priority of payments using available revenue.

### Principal Redemption

The standard sequential priority of principal payments will be in force, on a pass-through basis, in the following order:

1. principal due on class A notes;
2. principal due on class B notes; and
3. principal due on class C notes.

All the class A notes, irrespective of class, will rank pari passu and rateably in their right to receive both principal and interest without any preference or priority among themselves.

### Mandatory Redemption

All amounts recorded as principal (including scheduled repayments, prepayments, amounts credited to the PDL and defaulted loan sale proceeds) other than in respect of senior interest shortfalls not covered by revenue funds, amounts required to fund the liquidity ledger or further advances extended during the period, will be passed through to noteholders sequentially.

### Optional Redemption

At the option of the issuer, it is possible to redeem the notes plus accrued interest in the following circumstances:

- on or after the interest payment date in June 2011;
- once the then-current outstanding principal amount is less than 20% that at closing; or
- if the issuer or any hedge provider is required to make any withholding tax deductions.

Fitch's ratings do not address the possible exercising of these call options held by the issuer.

### Final Redemption

To the extent not previously paid down, the notes are due to be redeemed in full in December 2039.

### Interest Rate and Basis Risk

Some 74.48% of loans in the provisional pool have a fixed rate of interest for a specified period lasting until, at the latest, May 2012. There is also the possibility of variable rate loans being subsequently converted into fixed-rate loans after closing, therefore the proportion of fixed-rate loans in the portfolio may be extended beyond that implied by the fixed-to-floating reversion schedule.

To hedge its exposure to fixed and any converted capped-rate loans in a rising Libor environment, the issuer will enter into interest rate swap agreements with JPMorgan Chase Bank N.A. (rated 'AA-/F1+') and ABN AMRO Bank NV (rated 'AA-/F1+'). Any increase in this exposure will be accompanied by a suitable extension of the hedging arrangements, if necessary funded from excess spread trapped in a subordinated position in the revenue priority of payments on the previous payment date or from drawings under the subordinated loan.

Around 0.02% of the portfolio is charged against PML's or MTL's standard variable rate (SVR), which itself can be based on three-month Libor or the Bank of England Base Rate. The potential mismatch between three-month Libor to be paid on the notes and the SVR-based rates to be paid on the underlying loans will not be specifically hedged within the transaction. Also, the potential mismatch between the three-month Libor basis for the notes and the underlying PML and MTL loans based on when their reset dates occur each quarter is similarly not specifically hedged. Rather, PM15 has a threshold interest margin mechanism in this transaction designed to ensure that the weighted average contractual margin over three-month Libor on the reference portfolio as a whole will be at least 1.6%, rising to 2.0% after June 2012. Should the weighted average margin fall below these levels, the mortgage administrator will, under the mechanism, be obliged to increase the SVR on the pool or ensure that there are sufficient funds in the shortfall fund to maintain the minimum level. Fitch has not given any credit for the threshold interest margin mechanism in its analysis.

Fitch has also stressed the potential mismatch between tracker, SVR and Libor-linked loans with different reset dates than the three-month Libor paid on the notes. This has reduced the excess spread available to the transaction in such scenarios.

### Currency Risk

The issuer will enter into currency swaps to hedge the currency mismatches between the British pounds sterling-denominated assets and the US dollar and euro note liabilities of some of the note classes. Barclays Bank PLC (rated 'AA+/F1+') will be the currency swap provider.

### Swap Counterparty Rating Requirements

The basis swap counterparty must be rated ‘F1/A’ and the currency counterparty ‘F1/A+’. In the event of a downgrade of a counterparty below either of these levels, under the terms of the transaction, that counterparty will be required to collateralise any exposure, obtain a guarantee from a suitably-rated counterparty or find a suitably-rated replacement provider.

If any of the counterparties are then downgraded below ‘F2’ or ‘BBB+’, that counterparty will be replaced by or obtain a guarantee from a suitably-rated counterparty. At this level, it will only be possible to post collateral to support the swap if the mark-to-market calculations and the correct and timely posting of collateral are verified by an independent third party.

If any of the counterparties are then further downgraded, the swap counterparty will be replaced by, or guaranteed by, a suitably-rated counterparty.

Please see Fitch’s “*Counterparty Risk in Structured Finance Transactions: Swap Criteria*” criteria report, dated 13 September 2004 and available at www.fitchratings.com, for additional information on Fitch’s criteria for such swaps.

### Pre-Funding

The issuer has the right to purchase further mortgages up to the end of Nov 2007 (the first principal determination date), using funds set aside at closing from the issue of the notes and credited to the pre-funding reserve. The pre-funding reserve is expected to be approximately GBP250.00m at closing. Fitch must confirm that any pre-funded loans will not adversely affect the then-ratings of the notes before those loans are included in the reference portfolio. On the first interest payment date, any balance remaining to the credit of the pre-funding ledger, not already used to purchase mortgages, will be used to pay-down the notes. The negative carry will be incorporated into the cash flow modelling.

### Non-Verified Loans

At closing, all of the loans will have made their first payment. Loans to be purchased after closing with the pre-funding amount will also be required to have made their first payment.

## ■ Credit Enhancement and Liquidity

### Reserve Fund

The GBP19.00m reserve fund (1.90% of the issue) will be fully funded on day one via a subordinated loan advanced by PFPLC and MTS. The reserve fund will further increase to 2.40% in the event that arrears in excess of 60 days exceed 3% of the portfolio.

Any drawings on the reserve fund (to cover losses or revenue shortfalls) will be replenished using available excess spread or by drawing on the subordinated loan. The fund has been sized by Fitch to ensure that the notes have sufficient credit protection and liquidity support to merit their respective ratings.

Fitch has not given credit for the subordinated loan drawings as the provider is not rated by the agency.

### Liquidity Ledger

PM15 benefits from a liquidity ledger within the first loss fund. Upon a trigger breach, where 7.5% of the portfolio is more than three months in arrears, the liquidity ledger will be established in the first loss fund. At that time, it will equate to 1.6% of the then-current outstanding balance of the notes through trapping available excess spread or, if this is not available, by trapping principal through the available redemption funds. The first loss fund will be available to cover credit losses (on the principal deficiency ledger, PDL) and will be maintained at least at a floor of 1% of the principal balance of the notes at closing. The amount by which the balance of the first loss fund exceeds the liquidity amount (1.6% of the then-current note balance) will be available to pay interest and senior expenses 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. Once this amount has been fully drawn, the liquidity reserve can only be used to cover interest/swap payments on the notes, subject to the following conditions:

- the liquidity reserve can only be used to cover class B interest if the sum of payments to cover class A and B interest, and the outstanding PDL, does not exceed the outstanding balance on the class B and C notes;

- the liquidity reserve can only be used to cover class C interest if the sum of payments to cover class A, B and C interest, and the outstanding PDL, does not exceed the outstanding balance on the class C notes.

### Excess Spread

Excess spread is also a source of credit support and liquidity for all tranches of notes, with the advantage of being a potentially ongoing resource. However, unlike "hard" cash collateral, excess spread is dependent on the performance of the pool, and as such is often least available when most needed. It is eroded by delinquencies and defaulted loans, which is compounded if higher margin loans are affected. Should high-margin loans amortise more quickly than those with lower margins (whether as a consequence of divergent prepayment rates or shorter tenures), then there is further compression of excess spread. Furthermore, high prepayment rates on the portfolio as a whole would squeeze the gross amount of credit enhancement available over the course of the transaction. To take account of these factors in its cash flow modelling, Fitch applied its performance assumptions (derived from the collateral model) in conjunction with stressed prepayment rates and a compressed weighted average coupon, according to the rating scenario. (Fitch's approach to modelling cash flows in RMBS transactions is further discussed in Appendix 1 and in the criteria report "*A Guide to Cash flow Analysis for RMBS in Europe*", dated 20 December 2002 and available at www.fitchratings.com.)

## ■ Collateral Analysis

The figures provided in Fitch's collateral analysis are based on the maximum drawable balance for the flexible mortgages and consequently differ slightly from those in the offering circular.

The entire provisional pool analysed consisted of prime residential buy-to-let mortgage loans with a total current outstanding balance of approximately GBP677,081,500 (as at 18 May 2007) and a total maximum drawable balance of GBP677,142,700. The distinguishing characteristics of the portfolio are detailed below, together with commentary on any special considerations. All percentages are based on the total maximum drawable balance of mortgages unless otherwise stated.

### Buy-to-Let

100% of the loans in the portfolio are buy-to-let. Fitch applies an additional default hit to these to reflect the fact that;

- the property is not the borrower's prime residence and so the borrower may be more likely to default on the loan during a time of financial stress; and,

- the servicing of the loan is primarily dependent on rental income, which may be more volatile in stress periods than personal income.

In addition, landlord borrowers may target particular regions or groups of tenants within their portfolios, which may lead to a concentration of similar properties in a similar location at the individual borrower level.

As calculated by Fitch, 74.39% of the loans in the pool have ICR (calculated over stabilised reversion rate) below 100%.

Fitch notes too that a high proportion of the borrowers in this portfolio are professional landlords, with a minimum of 12 months' experience of managing at least three properties and with a recognised aptitude for enforcing tenancy contracts. The remaining buy-to-let borrowers are private investor landlords, also with significant experience, who aim to stay in the market for the longer term. This is a mitigant in minimising any downtime between tenancies. Another mitigating feature of buy-to-let loans in general is that, upon default, the foreclosure process is likely to be quicker than in other cases, as tenants with short-hold tenancy agreements can generally be more easily evicted than owner-occupiers, while the property can be repossessed more speedily. For a more detailed commentary, please refer to the *Origination and Servicing* section on page 11.

### Arrears Loans

In the provisional pool, 0.08% of loans by value are currently more than 30 days in arrears. However there are no loans which are in arrears for over 60 days. Fitch assumes that loans in arrears are more likely to default, and applies more conservative default adjustments to these.

### Interest Rate Type

Some 74.48% of loans by current balance are fixed rate for a pre-specified period, after which they revert to variable rate. All the fixed rate loans in the provisional pool will have reverted to their reversion rate at the latest by May 2012. While this may lead to a minor payment shock, Fitch does not believe this warrants any special adjustment to default probabilities. The remainder of the loans in the pool have interest rates linked to Libor/BBR and in a few cases Libor via the PML/MTL standard variable rate.

The ratio of fixed to variable rate loans may change, not only as a result of rate offers expiring, but also following the approval of borrowers' requests to the administrator to convert their mortgage. (see "*Interest Rate and Basis Risk*" above).

### Conversion

Subject to certain conditions, the administrator may approve borrower requests to convert certain aspects of their mortgages, for instance, from a variable rate loan to fixed or capped. In the case of capped-rate mortgages, to approve this change the issuer would have to ensure that it has the necessary cash in order to extend the then-current hedging facilities. This would be achieved either by trapping excess spread in advance or by drawing from the subordinated loan from PFPLC and MTS, whose subsequent claim would be in a subordinated position in the revenue waterfall.

### Further Advances

Mandatory further advances are made to borrowers who have flexible mortgages and who have overpaid, or to those who have the right to obtain a further advance upon the completion of construction works or refurbishment of their properties. Discretionary further advances may be agreed and advanced to borrowers in the pool by, and at the discretion of, the administrator (acting on behalf of the issuer) using principal receipts, recoveries or the subordinated loan, provided that:

- there was no debit balance on the PDL as at the previous interest payment date;
- the aggregate of: (i) the issuer's maximum potential obligation, at closing, to fund mandatory further advances; and (ii) the maximum balance of discretionary and mandatory further advances made or being considered, is no greater than 16% of the original note balance;
- the reserve fund is at its required amount;
- in respect of discretionary further advances, the borrower has not been in arrears in the previous three months or in breach of the mortgage conditions;
- the WA current LTV of the portfolio would not exceed its value by more than 1% after utilising the pre-funding; and
- arrears over three months do not exceed 2% of the then-outstanding balance of the pool

## ■ Legal Structure

PM15 is ultimately 100% owned by The Paragon Group of Companies PLC (PGPLC). Since the issuer in this case is a non-orphan entity, under UK tax laws it is possible that, under certain circumstances, the issuer can become liable for tax liabilities of other entities in the Paragon Group. However, based on the legal opinion and undertakings from the ultimate holding company PGPLC, Fitch believes the risk of such a liability arising is limited.

The issuer PM15 is also currently part of the Paragon VAT Group. Each member of a VAT group is jointly and severally liable for the VAT liability of all members of the group. To mitigate the risk of the issuer becoming liable for the VAT of group members, the following mitigants are in place:

- the trustee can serve notice requiring that the issuer cease to be a member of the VAT group;
- a trust account can be used by any member of the VAT group to meet a VAT liability should the principal VAT payer fail to do so. The amount required to be deposited in the account would be the greater of (i) GBP120,000, (ii) 120% of the actual VAT liability of the Paragon group in the past two quarters, and (iii) 120% of the estimated VAT liability of Paragon group in the next two quarters.

Fitch is of the opinion that this amount should be sufficient to cover any potential VAT liability.

The PM15 legal structure is designed to ensure that seller insolvency would not interrupt timely payments of principal and interest to investors.

On the closing date, the loan sellers will assign the rights, title and interest in and to the mortgages to PM15 (a public company incorporated under the laws of England and Wales). There will be no recourse to the sellers so that the transfer to PM15 will be treated as a true sale.

At closing, PM15 will enter into a deed of charge, creating security over the collateral in favour of the trustee as security for all payments under the notes. The security will include first-lien mortgages and first-fixed charges in favour of the trustee on all the issuer's rights, claims, title, benefit and interest in and to the underlying collateral.

### Representations and Warranties

The mortgage sale agreement contains representations and warranties given by the originators in relation to the pool of mortgages. No search of title will be conducted by the issuer or the trustee; rather they will rely on such representations and warranties. If there is an irremediable breach of any of the representations or warranties, the seller will be required to repurchase the loan(s) in question.

Specifically, the representations and warranties include the following:

- each mortgage constitutes a first-ranking legal mortgage or a second-charge mortgage when either PML or MTL are holders of the first charge, which is a valid and binding obligation of the borrower, enforceable under its terms;
- no lien or right of set-off exists between the borrower and the originator;
- each loan has been underwritten according to the originator's lending criteria outlined in the offering circular. This includes proper investigation and search of the relevant properties;
- prior to granting the loan, a property valuation was conducted by PML's or MTL's in-house valuers or an independent valuer from the panel of valuers appointed by the originators;
- each loan governed by the Consumer Credit Act 1974 meets the requirements of the Act in full;
- the maximum aggregate principal amount of mortgages in arrears which may be purchased as at the date of purchase is GBP10.0m;
- at its date of completion, each property was insured under a buildings policy or a block buildings policy;
- all loans have received their first payment instalment.

## ■ Origination and Servicing

### Paragon Mortgages Limited Origination

PML is a subsidiary of the Paragon Group, which specialises in the provision of various financial products to consumers. As a mortgage company, PML specialises in the origination of buy-to-let products and since February 2001, the vast majority of originations have been to professional borrowers. To qualify for the benefits of such a loan - notably a higher LTV - a borrower must already possess a portfolio of at least three properties and must present a minimum of 12 months' financial accounts for the underwriters to scrutinise. Such professional borrowers are typically characterised as individuals who earn a substantial portion of their income from the rental yield on their portfolio; indeed, some may rely entirely on this source of income for their livelihood. For new originations, PML requires that expected rental yields must normally exceed 125% of monthly interest payments based on the Paragon reference rate.

PML has five levels of underwriting based on a hierarchy of mandates. To increase borrowings above these levels it may request additional information, such as a business plan or performance data or conduct an interview with the applicant. Large exposures, ie in excess of GBP1m, to single borrowers are monitored via an annual review of accounts, letting conditions, voids, demand, cash flows, as well as a consideration of the borrower's strategy for the next 12 months. These controls are designed to ensure PML is kept abreast of the performance of key borrowers' portfolios, and may mitigate against single obligor concentration within the reference portfolio.

As with other buy-to-let lenders, PML prefers to retain human discretion in its lending procedures rather than adhere to a pro forma approach. As such, a hierarchy of mandates adhering to guidelines and criteria is in place to ensure that accountability is maintained. At the heart of policy-making is the overarching credit committee - comprising four standing members, department heads and other experts - which convenes on a monthly basis and presides over any changes to criteria and special cases. Voting by department heads is restricted to departments other than their own, a segregation of duties that helps prevent "relationship-lending" factors influencing credit decisions.

Professional landlords are believed to be more adept at managing a portfolio of properties, monitoring and acting on economic conditions and market indicators, reducing downtimes between tenancies, and selecting tenant types and target locations than standard borrowers. This assertion is based on the time and energy that professional landlords are able to spend administering their portfolio and researching the market.

### Mortgage Trust Limited Origination

MTL, part of the Paragon Group since June 2003, launched its new brand in September 2003. MTL specialises in the origination of buy-to-let products, and the majority of originations are to private investor borrowers. These borrowers typically possess a portfolio of between two and five properties and are investing in the property market for the longer term. MTL borrowers are expected to have rental yields generally exceeding 125% of mortgage repayments on an interest-only basis. This ICR calculation is based on either the underlying Libor-linked charging rate or the Paragon reference rate.

Mortgages are originated via direct distribution centres and, indirectly, through a network of brokers. The underwriters at MTL have experience either in-house or with high street lenders. New hires follow a specific training/mentoring programme, after which they are gradually given increasing underwriting limits. Although underwriters follow the underwriting guidelines established by MTL, they are allowed certain "discretion points" based on their seniority/experience. This results in an application to completion rate of approximately 70%.

Both PML and MTL originate buy-to-let loans, which will not be qualified as regulated loans under the Financial Services Authority (FSA). Nevertheless, MTS may originate a very small number of owner-occupied loans that must qualify for FSA regulation. MTS has been granted authorisation by the FSA for regulated mortgage lending.

### Underwriting

PML and MTL each have their own dedicated underwriting teams of approximately 25 full-time equivalent employees. The underwriters are usually recruited from within the business, and all receive "one-on-one on-the-job" training. If the underwriters are new to the business, it is expected they will need six months training prior to receiving a lending mandate. Monthly sample checks are completed against all underwriters by line management and further random checks are undertaken immediately after completion of a loan. Other control mechanisms are in place on the systems to ensure mandates and lending thresholds are not over-ridden. HUNTER has been used as a fraud detection tool since 1995, and both PML and MTL successfully switched to SIRA (Syndicated Intelligence for Risk Avoidance) during 2006.

### Valuations

The Paragon Group has 22 directly employed "staff" surveyors who complete approximately 25% of valuations; the remaining 75% are completed by "panel" surveyors. It is expected that more unusual properties are surveyed by the staff surveyors. All surveys completed by panel surveyors are audited by a Paragon staff surveyor.

### Servicing

PFPLC is responsible for administering the mortgage loans in the PML-originated portion of the portfolio. It invested in sophisticated collections technology following adverse credit experience suffered by the group in the early 1990s. At the group's West Midlands headquarters, ongoing contact with borrowers is maintained via a telephone-based debt management system known as CACS. CACS enables collection agents to schedule calls to borrowers upon a missed payment and provides a detailed, diary-based collections management platform. Fitch notes that this site has substantial operational history, and considers PFPLC to be more than adequate in its role as servicer.

MTS (as servicer for the MTL-originated loans) has an experienced mortgage servicing operation. The systems developed are user-friendly and tailored specifically to the needs of securitisation. MTL's origination remains based in Epsom, while collection is in Solihull. Collections and arrears management are now performed by PFPLC and MTS, using PFPLC/MTS employees, who operate the same systems and processes as for the PML-originated mortgages.

### Standby Servicing

Fitch considers the continuous, efficient servicing of the mortgage portfolio as fundamental to the successful performance of a mortgage-backed transaction. As such, it monitors that adequate arrangements are in place to ensure continued servicing in the instance that the named servicer in a transaction is unable to perform its duties.

HML will act as a standby servicer for this transaction. In the event that PFPLC and MTS are no longer able to continue servicing the portfolio, HML will be contractually required to assume servicing responsibilities.

## ■ Cash and Bond Administration

The cash bond administration (CBA) function for this transaction will be carried out by PFPLC. Around nine people within the finance, treasury and structured finance functions of the organisation are involved in the CBA. The team currently handles CBA for 15 transactions. The function is led by a manager with eleven years' experience of finance and securitisation. He reports to the head of finance who also has significant securitisation experience.

Once a deal is closed, the structured finance team will produce a summary document which includes deal structure, triggers and conditions that the CBA teams needs to be aware of to administer the deal. A training session will also be held to review the transaction details and will, if needed, give particular focus to any features of a transaction that are new or novel.

Cash flows are reviewed jointly by the structured finance and CBA team on a monthly basis. A bespoke system is used for cash management which also provides inputs for the bond administration calculations which are done using a Microsoft Excel model. All the cash and bond administration models have been independently validated by Deloitte & Touche (D&T).

There is both an internal and external audit of the CBA function on an annual basis. The external audit is performed by D&T which confirms the redemption fund calculation every year for each transaction. To date, no major concerns have been highlighted in any of the external audits.

Fitch is satisfied that the PFPLC team meets the necessary requirements for providing adequate cash/ bond administration services to the transaction.

## ■ Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance surveillance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is accessible at www.fitchratings.com.

Please call the Fitch analysts mentioned on the first page of this report with any queries regarding the initial analysis or the ongoing surveillance.

### Issuer Report Grades

Fitch has published the fourth edition of the Issuer Report Grades (see "*Issuer Report Grades May 2007 Update*", dated 31 May 2007 and available at www.fitchratings.com). This is part of an ongoing effort to improve the transparency of transaction performance to investors. Transactions are scored on a system ranging from one star (meets basic requirements) to five stars (outstanding). Past Paragon transactions have a current score of four stars, which equates to "Good", meaning the issuer provides good, user-friendly reporting in all areas and meets Fitch's published reporting standards in most areas.

## Appendix 1: Rating Methodology

### Rating Methodology

When rating an RMBS issuance by a UK non-conforming mortgage lender, Fitch applies criteria described in its "*UK Residential Mortgage Default Model Criteria*", dated 5 February 2007 and available at www.fitchratings.com. A default analysis of seasoned UK non-conforming transactions - referenced within the criteria report - shows that original LTV (reflecting the amount of borrower's equity at latest mortgage loan underwriting) and affordability measures (such as mortgage debt-to-net income or DTI) proved to be the most efficient primary indicators of default risk in the UK.

A key revision from Fitch's previous UK RMBS criteria is the establishment of separate base default probability matrices for UK prime and non-prime mortgages. In order for the prime matrix to be utilised for analysing an RMBS transaction, the lender originating such loans will need to (i) show that their definition of 'prime' is consistent with that of Fitch's (as described in the criteria report in Appendix 7) and (ii) demonstrate static pool performance history showing that the prime mortgages originated by the lender perform consistently with Fitch's expectations. Buy-to-let loans are analysed by applying a default probability adjustment to the prime matrix. Fitch accounts for additional risks associated with non-conforming borrowers by stressing certain aspects of the model. For instance, default probabilities are increased in cases where a borrower has an adverse credit history, which is typical of non-conforming borrowers as a whole. Furthermore, loss severity is generally higher, owing, in part, to the increased carry cost associated with higher-rate loans.

### Base Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make the mortgage payments. The willingness of a borrower to pay is usually measured by the LTV, while measures such as DTI ratios indicate the affordability of a loan to a borrower.

### Willingness to Pay Measures (Original Loan-to-Value)

Fitch's model assumes higher default probabilities for high-LTV loans and lower default probabilities for low-LTV loans. The main reason for this is that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low-LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property.

Since the inherent risk of lending to non-conforming borrowers is, to some extent, greater than for prime borrowers, lenders usually require a larger upfront equity investment. Therefore, LTVs are generally slightly lower on non-conforming mortgage pools than on prime.

### Affordability Measure (DTI)

Fitch's model factors in affordability to calculate overall credit enhancement by using the relevant measure, as provided by the seller. Affordability measures can include income multiples and DTI, and should give an indication of the portion of the borrower's income that will be going to pay the mortgage and other fixed monthly payments. Base default probabilities are determined by using a matrix that considers each loan's affordability factor and LTV. The matrix classifies affordability into seven classes, the lowest of which (Class 1) encompasses loans with DTI's less than 20% and the highest of which (Class 7) encompasses all loans with DTI's exceeding 45%.

### Adjustments to Base Default Probability

Fitch adjusts the base default rates on a loan-by-loan basis to account for individual loan characteristics of the collateral across all rating levels. Some of these characteristics include:

- **Credit History:** examining the credit history of the borrower is a crucial aspect in evaluating a pool of non-conforming mortgage loans. Adverse credit events, such as CCJs, bankruptcy orders and delinquencies to date, can be a harbinger of future loan performance. Even when a borrower's record is currently "clean", the assumed default probability for loans made to borrowers with prior issues is increased. Fitch also focuses on the limits the originators enforced when taking into consideration a borrower's adverse credit history;

- **Loan Purpose:** Fitch believes that a financially distressed borrower is more likely to default on an investment property than on a primary residence. Accordingly, the agency increases the base default rates in such cases by 10%-35%;

## Appendix 1: Rating Methodology (Continued)

- **Borrower Profile:** Fitch increases the default probability on loans to self-certified borrowers by up to 50% to account for the lack of independent verification of income;

- **Arrears Status:** Fitch penalises, on a loan-by-loan basis, the extent to which a loan is in arrears as of the cut off date. Default probabilities for loans that are between one day and three months delinquent are increased by 1.25-1.75 times, whereas loans more than three months delinquent are assumed to have a 100% probability of default;

- **Underwriting Quality:** Fitch's review and analysis of the origination process determines whether it increases default rates by up to 50%;

### Loss Severity

To estimate the loss severity on the loans in a portfolio, Fitch uses its UK default study which examines home price movements in the different regions of the country. By focusing on the recession of the late 1980s/early 1990s, various stressed MVDs were estimated.

When calculating recovery value, Fitch's model reduces each property valuation by the MVD, repossession costs and the costs to the servicer of carrying the loan from delinquency through default.

The agency increases the MVD assumptions for illiquid properties by up to 20%. Such properties are assumed to have larger MVDs owing to their smaller marketplace and less precise pricing information.

On the basis of worst-case information gathered from UK mortgage lenders, Fitch assumes the fixed costs of foreclosure to be GBP3,000, which includes litigation costs prior to possession, asset management fees, solicitor's fees for the property sale and valuer's fees. Fitch assumes variable costs of 2.5% based on the property value after the MVD, which represents estate agent costs for the sale of the property. To calculate the carrying cost, the agency assumes that the borrower does not pay interest for a period of 18 months on owner-occupied properties and 12 months on buy-to-let properties, and that interest accrues during this period at the current weighted average interest rate of the reference portfolio.

### Excess Spread

Excess spread represents the monetary difference between the income received by the issuer from the borrowers and the interest on the notes and other expenses paid by the issuer. Any reserve fund will be replenished from available excess spread if it is drawn. The actual value of excess spread depends on levels of delinquencies, defaults and prepayments, as well as the weighted average interest rate of the reference mortgage portfolio throughout the life of the transaction.

### Cash Flow Assumptions

When assessing the credit to be given for potential excess spread throughout the life of the transaction, Fitch makes some key stress assumptions:

- new delinquency vector and delinquency pay rate assumptions which represent the projected delinquencies of the non-conforming transactions with non-prime mortgages;

- prepayment rates represent the proportion of the mortgage pool that it is assumed will prepay annually;

- the weighted average coupon (WAC) compression assumption addresses the risk that high-margin loans will pay off first, resulting in a lower WAC for the remaining pool. It takes the form of a discount applied to the mortgage income received by the issuer from the borrowers (eg for 'AAA' rated notes, the weighted average interest rate ultimately received by the issuer from the borrowers is equal to the initial weighted average interest rate minus the WAC compression assumed for the 'AAA' stress scenario);

- gross losses are the aggregate expected loss level under the applicable rating stress scenario.

## Appendix 2

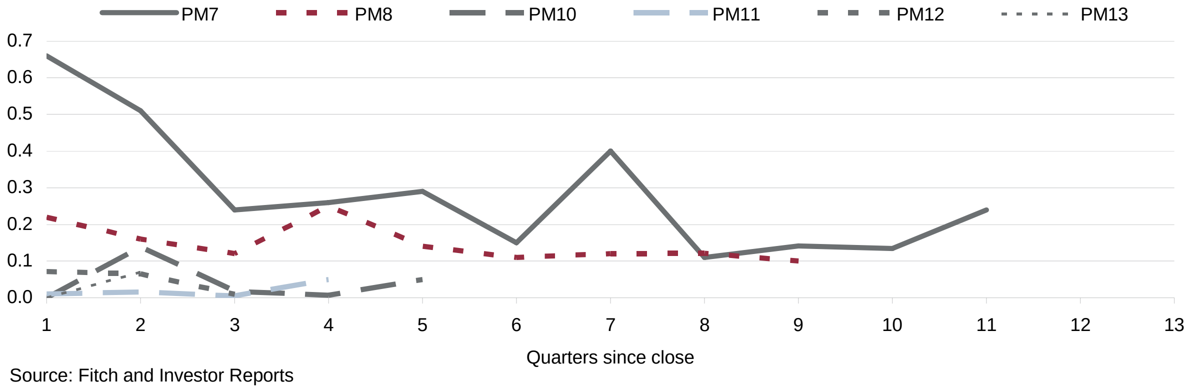
### Transaction Comparison

| Issuer | PM15 | PM14 |
|---|---|---|
| **Closing Date** | [Jul 2007] | Mar 2007 |
| **Gross C/E [WAFF * WALS (%)]** | | |
| AAA | 11.57 | 11.05 |
| AA | 7.47 | 7.09 |
| A | 4.58 | 4.32 |
| BBB | 2.25 | 2.10 |
| BB | 0.76 | 0.69 |
| **WAFF (%)** | | |
| AAA | 25.83 | 24.74 |
| AA | 20.66 | 19.80 |
| A | 15.50 | 14.85 |
| BBB | 10.33 | 9.90 |
| BB | 5.17 | 4.96 |
| **WALS (%)** | | |
| AAA | 44.81 | 44.65 |
| AA | 36.13 | 35.80 |
| A | 29.57 | 29.12 |
| BBB | 21.82 | 21.25 |
| BB | 14.65 | 13.96 |
| **WAMVD (%)** | | |
| AAA | 46.60 | 46.68 |
| AA | 39.27 | 39.28 |
| A | 33.66 | 33.62 |
| BBB | 26.89 | 26.82 |
| BB | 20.31 | 20.21 |
| **WARR (%)** | | |
| AAA | 62.84 | 62.71 |
| AA | 71.51 | 71.56 |
| A | 78.08 | 78.24 |
| BBB | 85.82 | 86.11 |
| BB | 92.99 | 93.40 |
| **General Information** | | |
| Max Drawable Collateral balance (GBP) | 677,142,700 | 787,829,335 |
| Avg CBAL (GBP) | 146,599 | 141,721 |
| Largest CBAL (GBP) | 2,927,229 | 1,750,734 |
| **Property Characteristics** | | |
| WA original valuation (GBP) | 189,563 | 183,043 |
| Largest indexed valuation (GBP) | 3,900,000 | 2,500,000 |
| L/OM/SE concentration (%) | 50.72 | 51.58 |
| Less liquid properties (%) | 8.79 | 8.53 |
| **Loan to Value (%)** | | |
| WA OLTV | 79.28 | 79.23 |
| WA CLTV | 79.27 | 79.26 |
| WA CLTV (Indexed Values) | 79.11 | 78.88 |
| OLTV>80% | 59.15 | 61.37 |
| OLTV>90% | 2.40 | 1.31 |
| **Borrower Characteristics (%)** | | |
| CCJs | 0 | 0 |
| BO/IVA | 0 | 0 |
| Past arrears | 0 | 0 |
| 90+ arrears | 0 | 0 |
| WA ICR for Buy-to-let | 0.96 | 1.01 |
| **Mortgage Characteristics** (%) | | |
| Self Certified (or income non-verified) | 0 | 0 |
| Buy-to-Let | 100.00 | 100.00 |
| Interest only | 95.99 | 95.41 |
| WA seasoning | 1.30 | 1.80 |
| WA stabilised margin over Libor (%) | 1.90 | 1.76 |

Source: Fitch

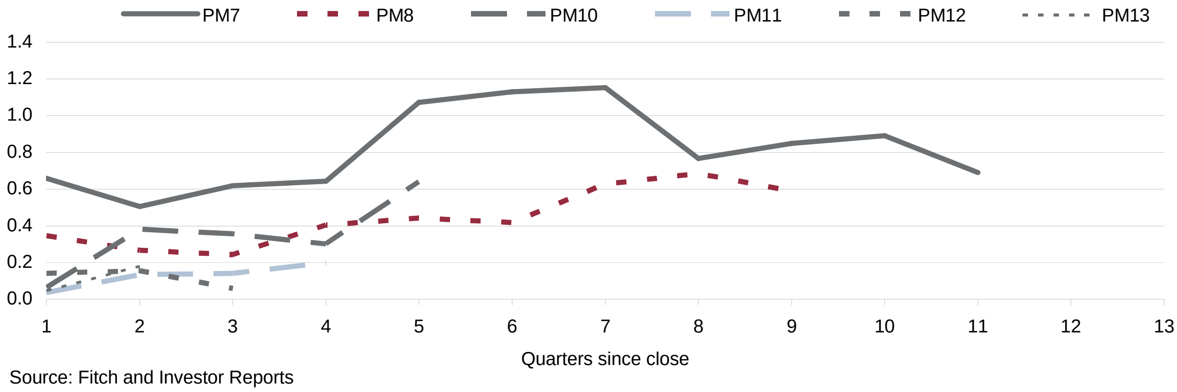
■ Appendix 3: Performance Charts

**Paragon Mortgages Limited**
Historic 3 Months + Arrears - Excluding Receiver of Rent




Source: Fitch and Investor Reports

**Paragon Mortgages Limited**
Historic 3 Months + Arrears - Inclusive of Receiver of Rent




Source: Fitch and Investor Reports

## Appendix 4

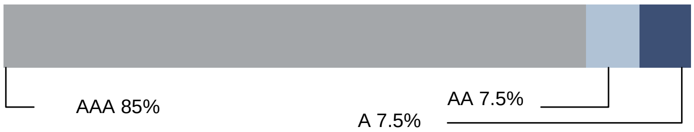
### Paragon Mortgages (No. 15)

RMBS/UK

### Capital Structure

| Class | Rating | Size (%) | Size (GBP equiv m) | C/E (%) | Index | Initial Spread (bp) | I/P PMT Freq | Legal Maturity | ISIN |
|---|---|---|---|---|---|---|---|---|---|
| A1 | AAA/F1+ | 50.5 | 505.00 | 16.90 | | [•] | Qtrly Prin/Mth Int | 2039 | [•] |
| A2 | AAA | 34.5 | 345.00 | 16.90 | | [•] | Qtrly | 2039 | [•] |
| B | AA | 7.5 | 75.00 | 9.40 | | [•] | Qtrly | 2039 | [•] |
| C | A | 7.5 | 75.00 | 1.90 | | [•] | Qtrly | 2039 | [•] |

| | Size (%) | Size (GBPm) |
|---|---|---|
| Initial Reserve Fund | 1.90 | 19.00 |
| Target Reserve Fund | 1.90 | 19.00 |




### Key Information

| | | | |
|---|---|---|---|
| Closing date | [July 2007] | Originators | PML/MTL |
| Country of assets | United Kingdom | Seller | PML/MTL |
| Settlement | Clearstream & Euroclear | Primary servicer | PFPLC/MTS |
| Listing | London Stock Exchange | Special servicer | Homeloan Management Ltd |
| Lead analyst contact information | Ketan Thaker<br>ketan.thaker@fitchratings.com<br>+44 20 7862 4124 | Lead manager | JPMorgan, ABN Amro, Barclays Capital |
| | | Cash/Bond administrator | PFPLC |

### Rating Triggers

| Counterparty Type | Minimum Rating Requirement | Counterparty | Current Counterparty Rating |
|---|---|---|---|
| Liquidity facility | F1 | - | - |
| Bank account | F1 | National Westminster Bank | AA+/F1+ |
| Currency swap | A+/F1 | Barclays Bank | AA+/F1+ |
| Interest Rate swap | A/F1 | ABN AMRO Bank N.V. and JPMorgan Chase Bank, N.A. | AA-/F1+ |
| GIC provider | F1 | - | |
| Interest rate cap | A+/F1 | - | |

### Credit Committee Highlights

| Asset Analysis | Cash Flow Analysis |
|---|---|
| Portfolio consists entirely of BTL mortgages originated by PML & MTL | No credit for Threshold Interest Margin mechanism |
| Interest coverage ratio is at 0.96 which is lower than PM14 | Reserve Fund of 1.90%, increasing to 2.40% on breach of certain arrears trigger |
| 3.41% of the portfolio comprises flexible loans. | Liquidity ledger will be established within the reserve fund upon breach of arrears trigger |
| 8.79% of the loans fall into Fitch's Jumbo/Small categories | No redraw facility |
| Past PML & MTL transactions have consistently performed well | Discount margin reserve equivalent to 0. |