**Background and reasons for Notice of Noteholders Meetings for PM7 – PM15 and PPAF3**

To access the PM7 – PM15 and PPAF3 Notices from the Paragon website: <http://www.paragon-group.co.uk>, click on “Investor Relations”. Then click on “Group SPV Announcements”. This will then enable access to all of the PM7 – PM15 and PPAF3 Notice of Noteholders Meetings.

**Background and Reasons for the Meetings**

The proposed changes are intended to (i) enhance the structural features of the transaction to deal with any risk of performance disruption in respect of mortgage administration and cash management, and (ii) make allowance for the Issuer to make payments as part of the pre-enforcement priority of payments, by way of settlement, to any unsecured claimants up to the "prescribed part" as stipulated in the Insolvency Act 1986 (Prescribed Part) Order 2003 (as amended, varied or supplemented from time to time).

Structural Enhancements

Moody's has identified a number of structural enhancements to be made to the Transaction to minimise the risk to Noteholders where there is performance disruption in respect of the mortgage administration and cash management services provided by the Administrators. These enhancements can be summarised as follows:

1. The appointment of Structured Finance Management Limited as substitute administrator facilitator, to assist the Issuer in:
   1. identifying and appointing a successor Administrator to perform the Cash Bond Management Services in the event that the Administrator defaults in its provision of the Administrator Report and the Substitute Administrator fails to assume performance of the Cash Bond Management Services within 5 Business Days of such default;
   2. identifying a successor Substitute Administrator in the event that the appointment of the Administrators is terminated for any other reason. Such successor Substitute Administrator shall be appointed Administrator if the current Substitute Administrator fails to assume the duties and obligations of the Administrators in accordance with the Substitute Administrator Agreement;
   3. after being notified in writing by the Substitute Administrator of its resignation, and in any event no later 6 months from the date of such notice, identify and appoint a successor Substitute Administrator; and
   4. after being notified in writing by the Substitute Administrator, the Issuer or the Trustee that the Issuer, Substitute Administrator or the Trustee has terminated, or intends to terminate, the appointment of the Substitute Administrator (or any successor thereto) as Substitute Administrator or that such appointment has terminated by virtue of the provisions of the Substitute Administrator Agreement, identify and appoint a successor Substitute Administrator (and in relation to appointment of a successor Substitute Administrator to assume performance of the Cash Bond Management Services only, such identification and appointment to be made within 7 Business Days).

In each case, the successor Administrator or Substitute Administrator (as the case may be) must (a) have experience of administering mortgage loans secured on residential properties in England and Wales; (b) enter into an agreement with, amongst others, the Issuer and the Trustee substantially on the terms of (in the case of a successor Administrator) the Administration Agreement or (in the case of a successor Substitute Administrator) the Substitute Administrator Agreement, and at fees which are consistent with those payable generally at the relevant time for acting as a substitute mortgage administrator; and (c) to the extent reasonably practicable, satisfy the then applicable criteria of the Rating Agencies.

In cases where the appointment of the current Administrators is terminated in respect of the Cash Bond Management Services only, they may nevertheless continue to perform the remainder of the Services until their appointment is otherwise terminated in accordance with the terms of the Administration Agreement.

1. In situations where the relevant Administrator has not provided all the calculation data in relation to a Collection Period necessary to determine the payments to be made by the Issuer on the immediately following Interest Payment Date, allowing for estimation of such payments based on previous data.

Claims of Unsecured Claimants

As the Issuer is part of the Paragon Group (and not an orphan vehicle), Moody's is concerned that there is an increased risk that there may be an incremental category of unsecured claimants (relative to the position where the issuing vehicle is an orphan) who may claim against the Issuers and if those claims are not satisfied they may petition for the insolvency of the Issuer. Since claims of unsecured claimants are generally limited to £600,000, being the "prescribed part" as stipulated in the Insolvency Act 1986 (Prescribed Part) Order 2003, the Issuer has negotiated with Moody's that such settlement amounts will be allowed to be paid as part of the pre-enforcement priority of payments. If such an allowance is incorporated into the transaction, unsecured claimants may be disincentivised from petitioning for the insolvency of the Issuer because they would, upon insolvency, most likely be entitled to no more than the "prescribed part" because the Issuer has given a full fixed and floating charge in favour of all the Secured Parties.

Failure to implement the changes described above may potentially result in (1) either immediately or in the future, the ratings ascribed to some or all classes of Notes by Moody's being downgraded or otherwise adversely affected and (2) other adverse consequences for the holders of all classes of Notes (including, without limitation, in relation to the price at which the Notes may trade).

The Issuer is proposing amendments to:

1. the Deed of Sub-Charge and Assignment (to be implemented by way of a First Supplemental Deed of Charge (the "**First Supplemental Deed of Charge** "));
2. the Trust Deed and the Conditions (to be implemented by way of a first supplemental trust deed (the "**First Supplemental Trust Deed**"));
3. the Administration Agreement (to be implemented by way of a deed of amendment and restatement in respect thereof (the "**Deed of Amendment and Restatement (Administration Agreement)**"); and
4. the Substitute Administrator Agreement (to be implemented by way of a deed of amendment and restatement in respect thereof (the "**Deed of Amendment and Restatement (Substitute Administrator Agreement)**"),

and is proposing that a substitute administrator facilitator agreement be entered into between the Trustee and Structured Finance Management Limited (the "**Substitute Administrator Facilitator Agreement**"), which together will seek to ensure that the requirements of Moody's are complied with and maintain the current rating of the Notes.

The direction to the Trustee to authorise the Issuer to make amendments if the modifications have been notified to the Rating Agencies is intended to accommodate current practice and policy of the Rating Agencies relating to requests for written confirmation of approvals in these circumstances. The Issuer intends to notify Fitch and S&P regarding the amendments proposed above but may not necessarily receive their explicit approvals to the amendments in writing.