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Research:

New Issue: First Flexible No. 1 PLC

£300 million floating-rate notes

Publication date: 19-Nov-1999

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Ratings Detail

Profile

New Ratings

Class A	AAA
Class B	A

Closing date: Nov. 12, 1999

Transaction Summary

Collateral: A pool of first-ranking mortgages secured over freehold and le
located in England and Wales.
Underwriter: JP Morgan Securities Ltd.
Seller/originator: First Active Financial PLC.
Administrator: The Mortgage Corp.
Trustee: Citicorp Trustee Co. Ltd.
Paying agent: Citibank N.A.
GIC provider/redraw facility provider: Barclays Bank PLC.
Swap counterparty/cap provider: Morgan Guaranty Trust Co. of New Y
Transaction account provider: Barclays Bank PLC.
Supporting ratings: Barclays Bank PLC as bank account provider, GIC p
facility provider (AA/A-1+), and Morgan Guarantee Trust Co. as swap cou
provider (AA/A-1+).

Rationale

The ratings assigned to the class A and B mortgage-backed floating-ra
First Flexible No. 1 PLC reflect the sound payment structure and cash
the transaction, a cash flow analysis to verify that the notes will be rep
scenarios, and the sound legal structure of the transaction.

Other considerations include:

- The strong protection for class A noteholders provided by a com subordinate £24 million class B notes, the 2% cash reserve fun to cover credit losses and income shortfalls;
- The strong protection for class B noteholders provided by the 2 and excess spread to cover credit losses and income shortfalls;
- The issuer's ability to meet interest shortfalls on all rated notes t spread on the mortgages and drawings that may be made unde

Transaction Overview

First Flexible No. 1 PLC (Issuer)

The issuer is a public limited company incorporated in England and
Standard & Poor's special-purpose entity (SPE) criteria and its princ
acquire the mortgage portfolio from First Active Financial PLC, to is
manage and administer the mortgages.

First Active Financial PLC (Originator)

First Active Financial PLC was originally incorporated in 1986 as a p
company under the name of Mortgage Trust Ltd. It was acquired by
from Skandinaviska Enskilda Banken in 1994, and re-registered as
company under its new name in September 1998. First Active PLC
1861 under the name of First National Building Society, which beca
building society. It converted to public limited company status in 199
Financial has established itself as a centralized lender specializing
products. Its core business is the origination and servicing of reside
sourced either directly or indirectly via intermediaries. In 1996, First
The Mortgage Corp. (TMC), another centralized lender, and in 1997
First Active Financial and TMC were merged onto one site. TMC sp
servicing of residential mortgage portfolios.

The Mortgage Corp. (Administrator)

As administrator, TMC is responsible for the day-to-day administrati
servicing of the underlying portfolio of mortgages. It is responsible fo
reports and accounts for the trustee and Standard & Poor's in conne
performance of the mortgages.

TMC's origination, underwriting, and valuation processes were revie
collection and default management procedures. Such a review is ar
corporate overview undertaken during the rating process of any tran
Poor's maintains surveillance on it throughout the transaction's life.
capable of performing the functions necessary to ensure the collect
payments and the management of the arrears and repossession ca

**Barclays Bank PLC (Guaranteed Investment Contract, Transac
Redraw Facility Provider)**

Barclays Bank PLC acts as the guaranteed investment contract (GI
transaction account provider under the bank agreement. It also prov
facility, which may be used by the issuer to fund the purchase of rec
compliance with certain tests.

At closing and in accordance with the terms of a mortgage sale agre
acquired from First Active Financial the beneficial interest in the poo
issuer funded this purchase via the issuance of the class A and B n
charged its interest in the mortgages and the collateral security to th
benefit of the noteholders in accordance with the deed of charge.

The issuer has entered into a series of interest rate swaps with Mor
Co. of New York and purchased a series of interest rate caps from t
issuer against the interest rate exposure arising as a result of differe
rates of interest charged on the mortgages and the threshold rate. I
purchase of the interest rate caps, a hedge reserve has been estab
shortfalls which may arise as a result of imperfectly hedging the inte

Redraw Risk

Approximately 92% of the mortgages acquired by the issuer from First
flexible. The terms of the flexible mortgages allow for borrowers to redr
have been paid in excess of the scheduled mortgage payments. To the
borrower prepays more than 20% of the scheduled principal balance a
the borrower is required to pay a commitment fee of 1% of the amount
prepayment exceeds 20%; this fee has not been relied on in the transa
Where redraw requests are validly made and funded, borrowers ultima
obligation to repay all amounts borrowed by the maturity dates of their

Standard & Poor's had access to only limited historical data on the red
mortgages, but is aware that even that limited information is not neces
predictor of future trends. As such, conservative estimates were made
potential redraw requests throughout the life of the mortgages. A redra
available to the issuer. In addition, a redraw facility of £45 million is ava
fund potential redraw requests in the event that it has insufficient funds
is considered adequate to cover redraw requests which, under conserv
could arise.

In circumstances where the redraw requests cannot be funded, legal a
borrowers might bring claims for damages which might ultimately affec
obligations to bondholders. As yet, there exists no legal precedent to g
how courts might treat potential claims against First Active Financial fo
that are validly made but cannot be funded. Therefore, when compare
under standard prime mortgage assumptions, additional credit enhanc
the notes.

Note Terms and Conditions

The issuer has issued two classes of notes, the class A and B notes. I
and B notes is payable at one-month British pound LIBOR plus a yearl
stepping up after November 2006 to 0.62% on the A notes, and 0.85%
on the B notes. Interest on the notes is payable monthly in arrears on t
of each calendar month, except for the first payment of interest, which
31, 2000, in respect of the period from the issue date up to and includi

Substitutions

The issuer has the right on any interest payment date to purchase s
up to the interest payment date falling in November 2002. The issue
substitute mortgage loans to the extent it receives scheduled princip
mortgages and redemptions and these receipts are not needed to fu
purchase of these mortgages is subject to certain criteria and credit
which are detailed in the underlying documentation. To the extent p
received and are not needed to fund redraws, these payments are p
noteholders.

Mandatory Redemption

The notes are subject to mandatory redemption, in part, on each int
from available funds. There will be no mandatory redemption of the
the class A notes are still outstanding until five years after the date
substitute mortgage was purchased. Thereafter, the notes may be r
subject to the fulfillment of certain conditions.

Optional Redemption

The issuer may redeem all of the notes at their outstanding principa
with accrued interest, under the following circumstances:

- The notes become subject to a withholding tax;
- On the interest payment date falling in November 2005 or on thereafter;
- If at any time the principal amount outstanding of the notes is initial aggregate principal amount outstanding of the notes at
- On the second interest payment date after any determinatior determined that the redraws made by borrowers on the colle ending exceed the sum of principal collections, the credit bal fund, and the available facility under the redraw facility.

Final Redemption

The notes will be redeemed in full no later than the interest paymen
November 2031.

Credit and Liquidity Support

Support for the class A notes is provided by a combination of the subo
excess spread on the mortgages, and the cash reserve fund. Support
is provided by excess spread on the mortgages and the cash reserve f

Collateral Details

The provisional mortgage pool of £300,232,996 (comprising 4,711 loar
Sept. 30, 1999. The loans in the provisional pool were originated by Fi
between 1995 and 1999, and have been administered by First Active F
origination. Features of the final mortgage pool include:

- Each loan is secured by a first legal charge of a residential prop Wales;
- Of the total mortgages, 44% are capital repayment mortgages a only mortgages by value. Of the interest-only mortgages, 23% v endowment mortgages. However, as the originator does not ins these loans were analyzed as interest-only;
- The weighted average loan-to-value (LTV) ratio of the current m 59.9%;
- The weighted average LTV of the mortgage pool, assuming the redraws, is 63.4%;
- The average outstanding mortgage balance is £63,730; the dra balances range are approximately £5,025-£587,662; and the pc amounts are £0-£407,699;
- The average potential redraw amount is £7,989; and
- The largest concentration of mortgages by geographic area is ir England, including London, with 47.1% of all the mortgages (by

Standard & Poor's Stress Test

Standard & Poor's analysis included a conservative assessment of the
the transaction. The credit enhancement levels were sized after analyz
severe stress scenarios would have on the collateral. To determine the
mortgage pool, an estimate must be made of the worst case of potenti
occur because of foreclosures. In this instance, this risk was sized usir
potential balance in respect of the flexible mortgages as opposed to th
balance. This estimate of potential losses is the amount of loss protect
of loans are thus eligible for inclusion in a pool, provided their credit ris
and adequate loss protection is supplied.

The cash flows simulate the performance of this portfolio within the tra
documented structure under certain stressful scenarios. In addition, th
swaps and caps to prevent the interest rate mismatch. Any bank accou
required to be with suitably rated providers.

Surveillance Details

Continuous surveillance is maintained on the transaction until the note
otherwise retired. This includes analyzing regular reports detailing the
underlying assets, monitoring all supporting ratings, and maintaining re
contact with the originator and administrator in order to monitor servici
stay informed on changes to operations or the characteristics of the m

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