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Research:

New Issue: First Flexible No. 3 PLC

£500 million mortgage-backed floating-rate notes

Publication date: 08-Nov-2000

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Ratings Detail

Profile

New Ratings

Class A	AAA
Class B	A

Closing date: Oct. 25, 2000

Transaction Summary

Collateral: A pool of first-ranking mortgages secured over freehold and le U.K.

Participants

Underwriter: JP Morgan Securities Ltd.
Seller: First Active Financial PLC.
Servicer: 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 (AA/Stable/A-1+); Morgan Guaranty Trust Co. of New York, London branc provider (AA/Stable/A-1+); and Royal & Sun Alliance Insurance PLC (AA- PLC (AA/Stable/--), and Legal & General Assurance Society Ltd. (AAA/St

Rationale

The ratings assigned to the class A and B mortgage-backed floating-ra No. 3 PLC reflect the sound payment structure and cash flow mechani analysis to verify that the notes will be repaid under stress test scenari the deal.

Other considerations include:

- The strong protection for class A noteholders provided by a com million class B notes, the 2.35% cash reserve fund, and excess income shortfalls;
- The strong protection for class B noteholders provided by a com fund, and excess spread to cover credit losses and income shoi
- The issuer's ability to meet interest shortfalls on all rated notes t mortgages and drawings that may be made under the reserve fi

Strengths, Concerns, and Mitigating Factors

Strengths

The transaction's strengths that influenced the rating are:

- The low loan-to-value (LTV) ratio of the mortgage pool; and
- The strong protection provided by the cash reserve account, balance of the mortgages at closing and nonamortizing.

Concerns

The concerns that were highlighted during the rating process are:

- The interest rate risk between one-month LIBOR and the mo not being fully hedged; and
- The interest rate risk between one-month LIBOR and the mo LIBOR not being fully hedged.

Mitigating Factors

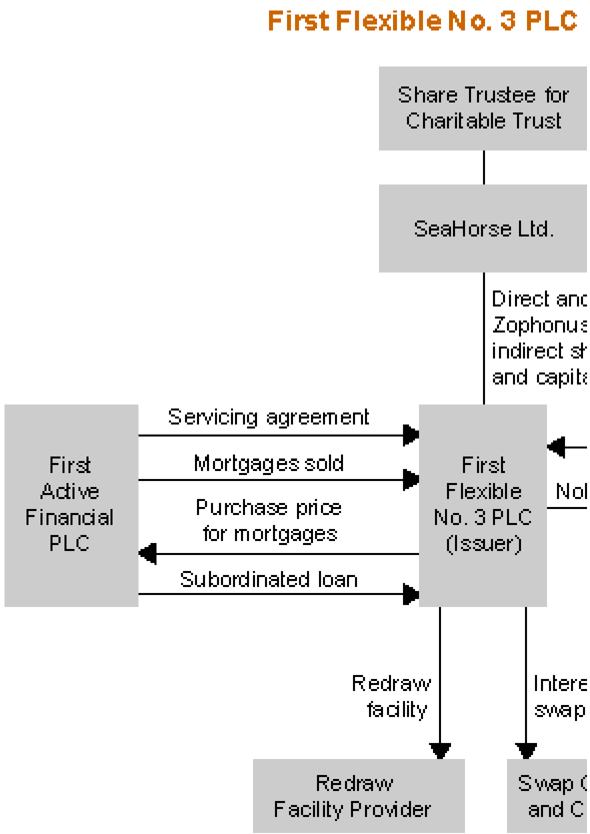
The concerns were mitigated by the following factors:

- Stress testing various assumptions;
- The level of subordination provided by the junior notes and tl
- The inclusion of a base rate reserve fund for the interest rate and the base rate. A threshold mechanism exists to maintain interest rate risk caused by the three-month LIBOR linked m

Transaction Overview

On the closing date, and in accordance with the terms of a mortgage sale from First Active Financial PLC the beneficial interest in the pool of mortg purchase via the issuance of the class A and B notes and it charged its in collateral security to the trustee for the benefit of the noteholders in accor

The issuer entered into a series of interest rate swaps with Morgan Guara purchased a series of interest rate caps from it that hedge the issuer agai arising as a result of differences between the rates of interest charged on rate. In conjunction with the purchase of the interest rate caps, a hedge re cash shortfalls, which may arise as a result of the interest rate caps not be overview of the transaction's structure, please refer to the following chart.



Transaction Parties

First Flexible No. 3 PLC (Issuer)

The issuer is a public limited company incorporated in England and
purpose entity (SPE) criteria and its principal objectives are to acqu
Active Financial PLC, to issue the notes, and to manage and admin

First Active Financial PLC (Originator)

First Active Financial PLC was originally incorporated in 1986 as a
name of Mortgage Trust Ltd. It was acquired by First Active PLC fro
in 1994 and re-registered as a public limited company under its new

First Active PLC was established in 1861 under the name of First N
became Ireland's largest building society. It converted to public limi
Active Financial has established itself as a centralized lender speci
Its core business is the origination and servicing of residential mort
indirectly via intermediaries.

In 1996, First Active PLC acquired The Mortgage Corporation (TMC
in 1997, First Active Financial's and TMC's operations were merged
the servicing of residential mortgage portfolios (see below). On Aug

Britannic PLC, the U.K. financial services group, entered into an ag
a 60% shareholder in First Active Financial, the U.K. subsidiary of F
will retain a 40% stake in the enlarged business.

The Mortgage Corp. (Administrator)

As administrator, TMC is responsible for the day-to-day administrati
underlying portfolio of mortgages. It is responsible for producing all
and Standard & Poor's in connection with the performance of the m

A review was undertaken of TMC's origination, underwriting, and va
collection and default management procedures. Such a review is ar
overview undertaken during the rating process of any transaction ar
transaction's life. Standard & Poor's is satisfied that TMC is capable
necessary to ensure the collection of borrower payments and mana
repossession cases.

Standby Servicer

First Active PLC has been appointed as standby servicer. It assume
appointment of TMC as servicer is terminated.

**Barclays Bank PLC (GIC Provider, Transaction Account Provic
Provider)**

Barclays Bank PLC acts as the guaranteed investment contract (GI
account provider under the bank agreement. It also provides the rec
the issuer to fund the purchase of redraws subject to compliance wi

Redraw Risk

Of the mortgages acquired by the issuer from First Active Financial, 98
flexible mortgages allow for borrowers to redraw amounts that have be
mortgage payments. To the extent that a borrower prepays more than
balance at any point in time, the borrower is required to pay a commitn
which the prepayment exceeds 20%. Standard & Poor's has only parti
into account in certain rating scenarios. Where redraw requests are va
ultimately have the obligation to repay all amounts borrowed by the ma

Standard & Poor's has access to historical data on the redraw compon
that limited information is not necessarily an accurate predictor of futur
estimates have been made as to the levels of potential redraw request
mortgages. A redraw facility of £60 million is available to the issuer to f
the event that the issuer has insufficient funds to do so. Standard & Po
cover redraw requests, which under conservative assumptions could a

In circumstances where the redraw requests cannot be funded, legal a
might bring claims for damages, which might ultimately affect the issue
at the date of closing, there exists no legal precedent to give clear guic
potential claims against First Active Financial for redraw requests that
funded.

Note Terms and Conditions

The issuer is expected to issue two classes of notes. Interest on the cl
one-month British pound sterling LIBOR plus a yearly margin (28 basis
and 85bps for the class B notes), stepping up after October 2007. Inte
in arrears on the first business day of each calendar month except for
is to be made on Jan. 1, 2001, in respect of the period from the issue c
2001.

Substitutions

The issuer has the right on any interest payment date (IPD) to purcl
IPD falling in December 2003. The issuer purchases substitute mor
scheduled principal from repayment mortgages and redemptions ar
fund redraws. The purchase of these mortgages will be subject to c
assessment tests, which are detailed in the underlying documentati
received and are not needed to fund redraws, these payments are p

Mandatory Redemption

The notes are subject to mandatory redemption in part on each IPD
be no mandatory redemption of the class B notes while the class A
years after the date on which the last substitute mortgage was purc
be redeemed pro rata subject to certain conditions being met.

Optional Redemption

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

- The notes become subject to a withholding tax;
- On the IPD falling in November 2006 or on any payment date
- If at any time the principal amount outstanding of the notes is principal amount outstanding of the notes at the closing date
- On the second IPD after any determination date on which it i made by borrowers in the collection period then ending exce the credit balance in the redraw fund, and the available facilit

Final Redemption

The notes are to be redeemed in full no later than the IPD falling in

Credit and Liquidity Support

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

Collateral Details

The provisional mortgage pool was £435,889,803 (comprising 6,557 lo
pool were originated by First Active Financial between July 1995 and A
administered by First Active Financial since origination. The notes issu
the principal outstanding amount of the prefunded loans. The issuer is
December 2000.

Features of the final mortgage pool include:

- Each loan is secured by a first legal charge of a residential prop
- Of the total mortgages, 52% by value are capital repayment mo mortgages. Of the interest-only mortgages, 23% were originated originator does not insist on assignment, however, these loans w
- The weighted average LTV of the current mortgage pool is 64.3
- The weighted average LTV of the mortgage pool, assuming the 66.7%;
- The average outstanding mortgage balance is £66,477. The dra between approximately £5,004 and £1,111,050. The potential re and £305,672;
- The average potential redraw amount is £4,882; and
- The largest concentration of mortgages by geographic area is in

(including London) with 51% of all the mortgages (by number) ir

Standard & Poor's Stress Test

The analysis includes a conservative assessment of the credit risk inhe
enhancement levels have been sized after analyzing the impact that se
on the collateral. In determining the credit quality of a mortgage pool, a
worst case of potential losses that could occur because of foreclosures
sized using the maximum potential balance in respect of the flexible m
outstanding balance. This estimate of potential losses is the amount of
loans are thus eligible for inclusion in a pool, provided their credit risk c
protection is supplied.

The cash flows simulate the performance of this portfolio within the trai
under certain stressful scenarios. In addition, the issuer makes use of
hedge, base rate, and discount reserves to address potential interest r
Any bank accounts of the issuer are required to be with suitably rated p

Surveillance Details

Continual surveillance is maintained on the transaction until the notes
do this, regular servicer reports detailing the performance of the underl
supporting ratings are monitored, and regular contact is made with the
servicing standards are being sustained and that any material changes
communicated and assessed.

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