First Flexible No. 3 PLC

UK-MBS

EXPECTED CLOSING DATE:
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TRANSACTION IN BRIEF

	Class A	Class B
Rating:	(P)**Aaa**	(P)**A1**
Amount:	£[460]mm	£[40]mm
Margin over 1m Libor:	[•] bp	[•] bp
Step Up Date:	November 2007	November 2007
Step Up Margin:	[double initial margin]	[double initial margin]
Final Maturity:	June 2034	June 2034

Interest Payment Dates:	First business day of each month starting on January 2000
Issuer:	First Flexible No. 3 PLC
Originator	First Active Financial plc
Administrator:	The Mortgage Corporation
Standby Servicer:	First Active plc (**A3**, **Prime-2**)
Swap Provider:	[Morgan Guaranty Trust Company of New York (**Aa3** (on watch for possible upgrade), **Prime-1**)]
GIC Provider:	[Barclays Bank PLC (**Aa2**, **Prime-1**)]
Principal Paying Agent:	[Citibank, N.A.]
Note Trustee:	[Citicorp Trustee Company]
Lead Manager:	JP Morgan

Summary of Provisional Pool (As at 31st August 2000)

Assets:	First residential mortgages in England, Wales, Scotland and Northern Ireland
Count:	[6,556] residential loans
Principal Amount:	£[435,889,803][1]
Redrawable Amount:	£[32,010,468]
LTV:	Weighted Avg: [64]%
LTV (inc. undrawn):	Weighted Avg: [67]%
Loan Size:	Avg: £[66,477]
Loan Usage:	Purchase [38]%, Remortgage [62]%
Concentration:	[East Anglia 4%, East Midlands 6.8%,North 1%, North West 6,7%, Northern Ireland 7,3% ,Scotland 1.5%, South East Inclusive London 50.7%, South West 9.3%, Wales 1.4%, West Midlands 5.4%, Yorks And Humber 6%]
Seasoning:	Weighted Avg: [8.3] months
Credit Support:	Reserve Fund ([235]bps of original Note balance), Class B Notes ([8]% of original Note balance), and Excess Spread.
Liquidity Support:	Reserve Fund, Liquidity Reserve Ledger ([3]% of the current balance of current balance of the Notes less the balance of the Reserve Fund, if First Active plc loses its **Prime-2** rating), £[60]million Redraw Facility.

1 The loan balance is less than the Note balance. The excess proceeds will be used to purchase additional loans, or will be returned to investors.

Moody's Investors Service

October 6, 2000

RATING OPINION

Moody's has assigned prospective long term credit ratings of (P)**Aaa** to the Class A Notes and (P)**A1** to the Class B Notes issued by First Flexible No. 3 PLC.

The Notes are backed by a portfolio of residential owner occupied mortgage loans originated by First Active Financial plc (FAF), the UK subsidiary of Irish mortgage lender First Active plc (**A3**, **Prime-2**) and Britannic plc. 97.7% of these loans are flexible loans where the borrower is able to redraw partial prepayments of principal if he/she has previously made early repayments on the loan.

The prospective rating of the Class A Notes is based upon:

1. A loan by loan analysis of the characteristics of the mortgage pool backing the Notes. Using this and other collateral analysis, we construct a probability density function describing the distribution of losses on the pool;[2]
2. The protection that the Notes receive from credit enhancement and liquidity support against defaults and arrears in the mortgage pool. Enhancement and liquidity support are determined in light of the range of potential outcomes described in the loss distribution, also taking account of other relevant factors such as interest rate volatility and counterparty default;[3]
3. The role of First Active plc (**A3**, **Prime-2**) as standby servicer, which also mitigates the risks associated with primary servicer default such as commingling and bankruptcy freezes;
4. The £[60]million Redraw Facility provided by Barclays Bank PLC (**Aa2**, **Prime-1**), which substantially mitigates the liquidity concern that more principal is redrawn by borrowers than is repaid in any period;
5. The role of Morgan Guaranty Trust Company of New York (**Aa3** (on watch for possible upgrade), **Prime-1**) as swap and cap provider; and
6. The legal and structural integrity of the issue.

Moody's believes that the credit risk associated with the Class A Notes compares well to other **Aaa**-rated Notes and the Class A Notes would have qualified for a (P)**Aaa** rating with less credit enhancement than is available in the deal.

The prospective rating of the Class B Notes is based on the above factors, and on an assessment of the extent of their subordination to the Class A Notes.

The prospective ratings of each of the Notes address the timely payment of interest, and ultimate payment of principal.

Moody's will monitor the transaction on an ongoing basis to ensure that the transaction continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports.

COLLATERAL

Flexible Loans

As already mentioned 97.7% of the loans in the provisional pool are flexible loans. The borrower can redraw principal that is prepaid ahead of his agreed amortisation schedule.[4] The borrower can only be refused a redraw if he is in breach of the terms of the loan. There is no re-underwriting process at the time the redraw is requested.

Potential behaviour of a borrower under a flexi loan may differ from that expected under a more conventional non-redrawable loan. Prepayments by the flexi-borrower will not necessarily reduce severity on repossession because he can draw down on his equity to meet monthly instalments in times of stress undoing the effect of prepayments. Depending on the flexi-borrower's circumstances and the magnitude of the downturn, redraws might be a valuable source of liquidity so decreasing default frequency, or they may just serve to delay repossession thereby increasing severity. In the case of the provisional pool, redrawable amounts currently make up only [7.5]% of the initial drawn pool balance.

2,3 See "The Lognormal Method Applied to ABS Analysis", *Moody's Special Report*, July 2000.
4 Under an interest-only loan, all partial payments of principal (other than full redemption) are redrawable. Under a repayment/annuity loan, all payments of principal (other than full redemption) in excess of those due under the monthly instalment are redrawable.

It is, however, a term of the vast majority of the flexible mortgage loans that, if the amount redrawable exceeds 20% of the original loan amount, then the borrower must pay a commitment fee of at least [1%] on the excess, or he can cancel that excess so it is no longer redrawable. On average, this should disincentify borrowers from running a large redrawable balance.

The bulk of historical repayment activity under conventional non-redrawable loans is in fact full redemption. So partial non-redrawable prepayments may be of limited value to a "normal" pool in any event.

But, because of the possible effects of redraws, our Loan by Loan analysis (see our Special Report of April 1998 called "Moody's Approach to Rating UK Residential Mortgage-Backed Securities") focuses on the balance of the loans plus amounts redrawable, rather than the current balance only.

Despite the redraw right, borrowers still have to make their regular monthly payments, which in most cases are collected by Direct Debit from the borrower's bank account. Nonetheless, properly timed redraws by the borrower could hide the true arrears position in the pool - ie if otherwise delinquent borrowers redraw in advance to meet interest payments.

Borrowers are also allowed to ask for payment holidays, but are not entitled to these as of right. Broadly, a payment holiday will only be given if the borrower is entitled to a redraw. The amount will be added to the capital balance of the loan.

On balance, we believe that there is some uncertainty as to how the pool would perform during an economic downturn due to the absence of data on these products. The enhancement levels address this uncertainty and the possibility that flexible loans may exhibit greater loss volatility in times of stress.

The quality of the collateral was positively affected by:

- The low LTV's in the pool. The average LTV at origination was 64%;
- The generally higher quality of borrower attracted to this product type. In particular, these loans will appeal to those looking for a tax effective savings strategy;
- The consistent strong performance of FAF's general lending book;
- The fact that no loan in the securitisation pool will have been more than 1 month in arrears in the last 12 months (or since origination); and
- The MIG policies that apply with respect to all loans that have an LTV at origination in excess of [75]%.

The quality of the collateral was negatively affected by:

- The relatively limited seasoning of the pool. [84.2]% of the pool were originated in the last 12 months;
- The relatively large property values in the pool - [27.9]% of properties in the pool were valued in excess of £250,000. (Moody's believes that in an economic downturn high value properties could show a greater price volatility). This also points however to the generally better quality of the borrowers in the pool as they will be borrowing against the higher value properties; and
- The inclusion of loans to the Self employed in the pool (approximately [9]% of the initial pool).

Substitution

FAF can substitute new mortgage loans into the deal in its first 3 years subject to a number of conditions including the following:

- The resultant aggregate outstanding loan balances and redrawable amounts in the pool will not exceed the same amount as at the beginning of the current monthly interest period;
- The Reserve Fund (and, where required, the Liquidity Reserve Fund) are fully funded at the levels specified for the relevant interest period;
- If there is a principal deficiency recorded on the PDL, it does not exceed 0.1% of the aggregate principal amount outstanding of the Initial Mortgage Pool;
- There are no outstanding drawings under the Redraw Facility;

- The weighted average LTV across the pool will not increase by more than 1% from the figure as at closing (using historic valuations);
- TMC or First Active plc as standby servicer are still performing their obligations under the transaction and FAF is not in insolvency;
- The Issuer is not aware that substitution would cause a downgrade of the Notes.
- Appropriate hedging must be in place (see “Hedging” below);[5] and
- The aggregate principal balance of arrears (greater than £100) loans is less than [2.5%] of the then outstanding principal balance of the loans, and the amount of all outstanding interest arrears is less than [2]% of the total amount of gross interest due on the loans then outstanding over the last 12 months.

In addition, no more than [3%] of the pool balance as at the end of any month may be substituted in the following month. Substitute loans will be bought using principal if it is not needed to pay interest, fund the Liquidity Reserve Fund, repay the Redraw Facility, or meet new redraw requirements.

Conversions/Further Advances

First Active may convert loans from one type to another. It may also make further advances under loans in the securitisation and sell these to the Issuer provided that certain requirements are met, including requirements similar to those described for substitution. In addition, the total cumulative amount of further advances is limited to [10]% of the initial outstanding pool balance, and a loan must be performing before a further advance can be made.

RE-DRAW RISK/SET OFF

Flexi loans also create certain liquidity risks to the deal. Each borrower is legally entitled to a redraw provided he is not in default under the mortgage conditions. And the borrower could, if not provided with the redraw, sue FAF for damages representing his loss caused by FAF’s contractual default. Importantly, the borrower would have no right to sue the Issuer as the obligation to provide redraws remains with FAF at all times including after perfection of the transfer of the loans to the Issuer. But the borrower would be entitled to off set any damages he was awarded against amounts due under his loan - even after a FAF insolvency, irrespective of whether the redraw was requested or due after a FAF insolvency and irrespective of whether the transfer of the loans has been perfected or notified.

The amount of the claim will most likely represent the cost of obtaining alternative finance elsewhere. This could be relatively material, for example, if the borrower could only obtain a second mortgage where interest would be charged at higher rates, or if lending margins have materially increased. The borrower is obliged to mitigate his loss so would have to seek finance at market rates.

The risk of a borrower making a claim and setting off against his loan is mitigated in several ways:

- Principal redemptions received from borrowers are allocated first to meeting redraw obligations of FAF;
- If the amount of redraws exceeds the amount of principal collected, the Issuer can draw under a Redraw Facility provided by Barclays Bank PLC (**Aa2**, **Prime-1**). The facility equals £[60]milion (or [12]% of the initial Note balance). In subsequent periods, the facility is repaid from principal received under the mortgage loans, if not needed to fund further redraws in priority to Note amortisation. Amounts repaid under the facility, can be redrawn in future periods; and
- If the facility is fully drawn and there are insufficient principal collections to meet redraw obligations, then FAF is still contractually obliged to make those redraws.

The amount available under the Redraw Facility will decrease through time as the amount that can be drawn is limited to the lower of the £[60,000,000] and the then outstanding balance of Class A.

5 In addition, new Base Rate Loans must charge at least [115]bps over Base Rate, and new Libor loans must charge at least 100 bps over 1m Libor.

Barclays has agreed that, if it ceases to have a **Prime-1** rating, it will find a replacement Redraw Facility provider that is rated **Prime-1**. The facility may also be termed out at that point pending the replacement assuming its obligations.

The probability of redraws exceeding the principal receipts and amounts available under the redraw facility is very low, and the residual risk of a damages claim against the Issuer (which would also require a FAF default) is consistent with the enhancement in the deal.

HEDGING

The loans charge interest on different bases. In general loans will ultimately charge interest at either FAF's own standard variable rate (SVR) or at a margin over Libor or Bank of England Base Rate.

- 21% of the loans are capped or on fixed rates at the outset of the transaction. The capped/fixed periods on these loans vary between 3 months and 2 years. Whilst in a capped or fixed period, loans will be hedged relative to Note Libor plus 100bps via caps or swaps provided by Morgan Guaranty Trust Company (**Aa3** (on watch for possible upgrade), **Prime-1**). These may not, however, be perfect hedges. In such a case, FAF will deposit the cash difference, for the period of the cap or swap, with the Issuer in the Hedge Reserve. Amounts from this reserve will be released into the waterfall through time reflecting the amount that would have been received had the assets been perfectly hedged. Amounts will also be released back to FAF to reflect the amortisation of capped or fixed rate products.
- Approximately [43]% of the loans are at an initial discount (to SVR or the relevant margin over Base Rate or Libor). The amount of the discount and its period depends on the product type. The shortfall between the amount required by the TIM Mechanism (see below) and the discount for each loan will be placed into the Discount Reserve. Amounts from this reserve will be released into the waterfall through time reflecting the amount that would have been received absent the discounts. Amounts will also be released back to FAF to reflect the amortisation of discounted products.
- About 5% of the loans in the pool charge interest by reference to 1m or 3m Libor. The Notes reset monthly on the same day as the loans mitigating basis risk on the 1m Libor loans. The 3m Libor loans will not be specifically hedged against 1m Libor. However, Moody's is comfortable with this risk on the basis of the historical relationship between 1m and 3m Libor, and the credit enhancement present in the deal.[6] In any event, only 4% of the pool carry this risk and any remaining risk would be covered by the TIM Mechanism (see below).
- Approximately 12%of the loans charge interest at a margin over Bank of England Base Rate. These loans can treated as receiving [15]bps below 1m Libor based on the long term historical difference between these 2 bases. In addition, the Issuer will establish a Base Rate Reserve, funded at closing at [30]bps of the initial balance of the Base Rate linked mortgages present in the pool. This fund is sized to reflect historical volatility in the mean 15 bps difference between the two bases.[7] The amount in this ledger will be released into the waterfall to the extent that the difference between Libor and Base Rate exceeds 15bps. The fund can be replenished from Excess Spread in the waterfall back up to 30bps of the original Note balance.

Finally, FAF will also operate a Threshold Interest Rate Mechanism (TIM) whereby it will agree to set the SVR on the SVR loans such that the amount receivable on the assets each month, plus the amounts to be released from the Discount Reserve, Hedge Reserve and Base Rate Reserve that month, creates a gross spread of 100 bps over Libor on the mortgage pool. This provides further protection to the Notes in the event there is a shortfall in any of the reserves described above or due to the 1m/3m Libor risk. Negatives associated with the TIM Mechanism include: the fact that at closing only a portion of the loans charge by reference to SVR and there is no guarantee that this percentage will not be materially reduced through time; and the fact that, whilst the TIM Mechanism can increase the cashflow from the assets, it also increases the payment burden on borrowers.

6 In summary, 3m Libor is on average [5]bps higher, with limited volatility about that mean, and no particular correlation with either the general economic outlook or with the basis risk arising from the Bank of England Base Rate/ 1m Libor mismatch.

7 The spread between BoE Base Rate and 1m Libor has been modelled via a mean reverting stochastic process subspecified by a Lognormal volatility component.

CREDIT ENHANCEMENT

Investors in the Notes are protected from the effect of credit losses on the pool in a number of ways.

Excess Spread

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

- The income receivable by the Issuer under the mortgage loans and its other investments (such as the GIC), and under the Caps and Swaps provided by MGT; and
- Interest due by the Issuer on account of its various ongoing costs and expenses, including interest due under the Notes and the Swaps.

The actual Excess Spread in the deal will depend upon a number of factors such as the level of arrears in the deal, and the coupons on the Notes (which step up after November 2007).

Excess Spread is used first to top up the Reserve Fund to its target amount (see below). Any surplus is then to be applied in redeeming the Notes to the extent that a property has been liquidated following repossession and a principal deficiency on the loan incurred and recorded on the Principal Deficiency Ledger (PDL). In this way, Excess Spread is trapped in the transaction and used to redeem Notes to the extent of principal deficiencies incurred in the pool.

The value of Excess Spread as credit enhancement to the transaction depends on a number of factors such as prepayment speeds (as prepayment speeds increase following the end of the substitution period, the cash value of Excess Spread decreases) and the timing of losses in the pool (Excess Spread is available on a “use it or lose it” basis and so is paid back to FAF if not used to cover losses).

Reserve Fund

The second layer of protection for investors in the Notes is the Reserve Fund. The Reserve Fund equals [235]bps of the original balance of the Notes and will be fully funded at closing.

Principal Subordination

The third layer of protection for Class A investors is the subordination of principal due under the Class B Notes. Initially, only the Class A Notes redeem. However, Class A and Class B can redeem pro rata if the following conditions are met at the time:

1. The payment occurs more than 5 years after the end of the 3 year substitution period;
2. The ratio of outstanding Class B Notes plus the amount in the reserve fund to outstanding Class A and Class B Notes is twice the same ratio as at closing.
3. The Reserve Fund, Discount Reserve and Base Rate Reserve (and, where required, the Liquidity Reserve Fund) are fully funded at the levels specified for the relevant interest payment date;
4. There is no principal deficiency recorded on the PDL;
5. There are no outstanding drawings under the Redraw Facility; and
6. The aggregate principal balance of arrears (greater than £100) loans is less than [2.5]% of the then outstanding principal balance of the loans.

But pro rating cannot lead to the outstanding balance of Class B Notes to be less than 2 times the largest loan then outstanding.

The Notes are to be redeemed using principal received after making redraws and repaying amounts due under the Redraw Facility (and funding the Liquidity Reserve Fund, if required).

Interest/Interest Subordination

Further protection is provided via the subordination of interest due under the Notes; on each interest payment date, Class A interest is paid before Class B interest. Unpaid Class B interest can be deferred until later interest payment dates.

Interest/Principal Subordination

In addition, in certain circumstances Class B interest is subordinated to payment of principal under Class A. This occurs where the debit balance of the PDL exceeds the amount of Class B then outstanding. In this case, Excess Spread is used to top up the Reserve Fund and to reduce any principal deficiency recorded on the PDL (ie to redeem Notes) before it is used to pay Class B interest.

LIQUIDITY

Several levels of protection are available to investors to counter the effect of temporary shortfall in cashflows from the loans caused by delinquencies in the pool or any interruption in the servicing functions or cash collection functions.

Principal paying Interest

The first source of liquidity is the Issuer's ability to use principal receipts under the mortgage loans to meet its senior expenses obligations, including interest due under the Notes. Where there is an income shortfall, principal receipts will be applied in priority to repayment of the Redraw Facility, funding new redraws and Note amortisation.

Reserve Fund

The second source of liquidity is the Reserve Fund that is available to cover interest shortfalls under the Notes. The value of the liquidity support provided by the Reserve Fund in the context of a FAF default is increased by the fact that the Reserve Fund is topped-up from Excess Spread in priority to reduction of principal deficiencies recorded on the PDL.

Liquidity Reserve Ledger

In addition, a Liquidity Reserve Ledger will be established to trap principal receipts under the loans if First Active ceases to have a rating of at least **Prime-2**. The target amount to be trapped will equal 3% of the current balance of the Notes less the current balance of the Reserve Fund (floored at zero). The Liquidity Reserve Ledger can be used to service Note interest but only after the Reserve Fund has been depleted. This protects the transaction against possible cashflow interruptions following a servicer default/insolvency.

COLLECTIONS AND BANK ACCOUNTS

Payments under the Loans are collected by TMC as administrator under a number of arrangements including by direct debit, cheque, standing order and cash, and are paid directly into the Collection Accounts of FAF with Barclays Bank PLC (**Aa2**, **Prime-1**). Cash in the Collection Accounts must be transferred by TMC to the Issuer's Transaction Account with Royal Bank of Scotland (**Aa2**, **Prime-1**).

All bank accounts must be maintained with **Prime-1** rated banks.

SERVICING

The Mortgage Corporation, a company connected to FAF, is the primary servicer of the loans. First Active plc (**A3**, **Prime-2**) has agreed to act as standby servicer in the event that TMC defaults on its obligations. This is a hot standby servicing arrangement given the connection between the two companies. The risk of there being cash flow interruptions on a servicer default (where cash trapped at the insolvent servicer level) is materially reduced.

FAF was previously 100% owned subsidiary of First Active plc. On September 2000 Britannic Assurance Plc bought 60% of FAF from First Active plc who retain a 40% stake.

STRUCTURE

The Issuer is a special purpose vehicle incorporated in the UK and ultimately owned by a charitable trust. The mortgage loans and other related rights were sold by way of silent equitable assignment to the Issuer which in turn created first fixed security over such assets in favour of the trustee for the Note holders. The Issuer funded the purchase price of the loans using the proceeds of the Notes.

The Issuer is VAT grouped with a number of other companies, including TMC. VAT grouping means that the 10bps servicing fee payable to TMC is not subject to VAT. But members of a VAT group are jointly and severally liable for the VAT liabilities of all other members.

In mitigation, if TMC, as representative member of the VAT group, fails to pay VAT due by it or enters insolvency, or if there is a material increase in VAT liability of the group, the Issuer will attempt to de-group. On a degrouping, no new VAT liabilities will arise but any that exist remain. The VAT authority cannot prevent a company from de-grouping, but it must be given 90 days' prior notice and de-grouping can sometimes be a prolonged process. In addition, the group's VAT liabilities have historically been limited to £6,000, and most of the members of the group are special purpose companies which should have limited activities and, therefore, limited scope for triggering extensive VAT liabilities.

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