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Research:

New Issue: First Flexible No.4 PLC

£500 million mortgage-backed floating-rate notes

Publication date: 16-Aug-2001

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Ratings Detail

Profile

New Ratings

Class A	AAA
Class B	BBB
Class M	A

Closing date: July 26, 2001

Transaction Summary

Collateral: A pool of first-ranking mortgages secured over freehold and le
occupied and investment home loan properties located in the U.K.

Participants
Underwriters: Nomura International PLC and Barclays Capital.
Seller: Arianty No. 1 PLC.
Servicer: Britannic Money PLC.
Trustee: Chase Manhattan Trustees Ltd.
Paying agent: Chase Manhattan Bank.
Transaction account: Barclays Bank PLC.
GIC account: Barclays Bank PLC.
Redraw facility provider: Barclays Bank PLC.
Swap counterparties: Morgan Guaranty Trust Co. of New York, Royal B
and Barclays Bank PLC.
Cap providers: Morgan Guaranty Trust Co. of New York and Barclays Ba

Rationale

The ratings assigned to the class A, M, and B mortgage-backed floatin
by First Flexible No. 4 PLC reflect the sound payment structure and ca
the transaction, a cash flow analysis to verify that the notes will be rep
scenarios, and the sound legal structure of the deal.

Other considerations include:

- The strong protection for class A noteholders provided by a com
subordinate £35 million class M notes, the £5 million class B no
reserve fund, and excess spread to cover credit losses and inco
- The strong protection for class M noteholders provided by a cor
subordinate £5 million class B notes, the 1.5% cash reserve fun
to cover credit losses and income shortfalls;
- The strong protection for class B noteholders provided by the 1.
fund and excess spread to cover credit losses and income short
- The issuer's ability to meet interest shortfalls on all rated notes t
spread on the mortgages and drawings that may be made unde

Strengths

The transaction's strengths, which influenced the ratings, are:

- The low loan-to-value (LTV) ratio of the mortgage pool; and
- The strong protection provided by the nonamortizing cash re funded to 1.5% of the outstanding balance of the mortgages prefunding) at closing.

Concern

A concern highlighted during the rating process is the interest rate r because one-month LIBOR is payable on the notes but the mortgag the base rate. Although this risk is not fully hedged, in respect of the it has been substantially eliminated through a swap.

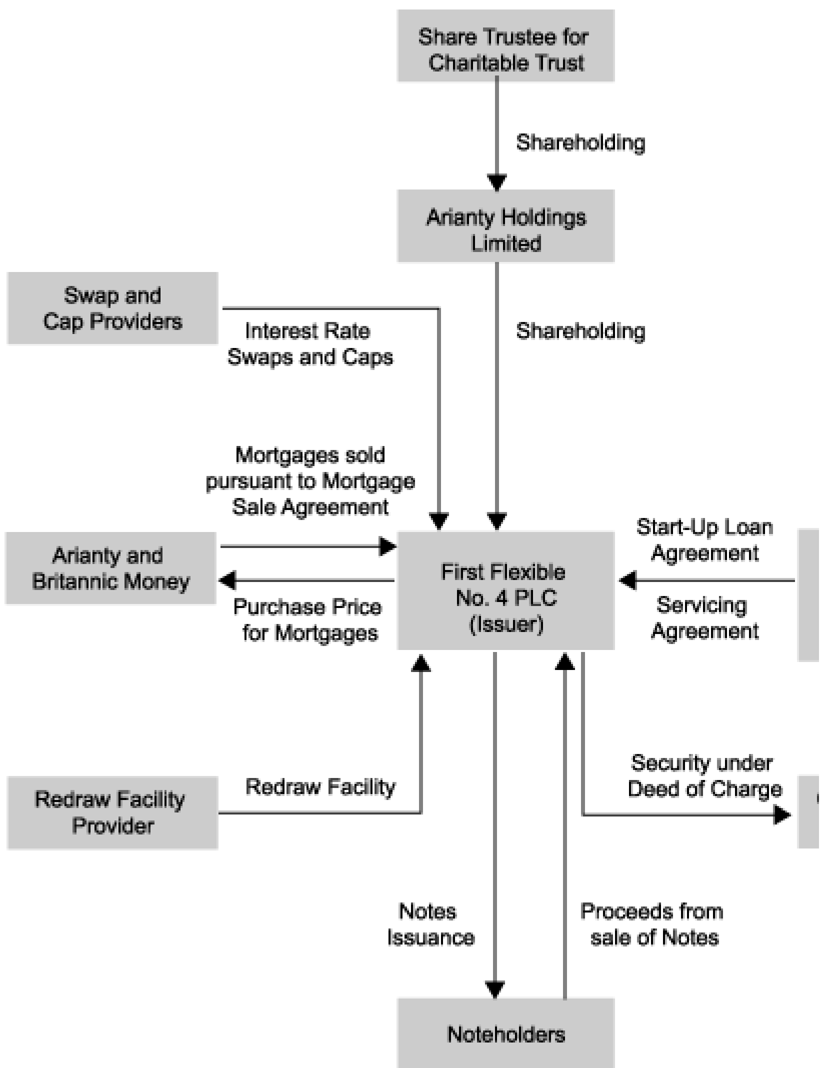
Mitigating Factors

The above concern is mitigated by the stress testing of various assu level of subordination provided by the junior notes and the reserve f

Transaction Structure

The structure of the transaction is shown in the following chart.

First Flexible No. 4 PLC Structure



Structural and Legal Review

First Flexible No. 4 PLC (Issuer)

The issuer is a public limited company incorporated in England and
special-purpose entity (SPE) criteria and its principal objectives are
mortgage portfolio from Arianty No. 1 PLC, the issuance of the note
management and administration of the mortgages.

Britannic Money PLC (Originator and Servicer)

Britannic Money PLC was incorporated under the name Mortgage T
registered in England and Wales under the Companies Act 1985 wi
limited liability status on Aug. 21, 1986. Prior to Sept. 29, 2000, Brit
indirect, wholly owned subsidiary of First Active PLC. Pursuant to a
First Active and Britannic Assurance PLC, Britannic Assurance bec
shareholder in Britannic Money on Sept. 29, 2000.

Britannic Money was acquired by First Active PLC from Skandinavis
in December 1994. The company now has residential mortgage ass
management of £541 million (including £457 million off-balance she
was re-registered as a public limited company and its name change
Trust Ltd. to First Active Financial PLC on Sept. 4, 1998 and then to
PLC on Feb. 16, 2001.

As servicer, Britannic Money is responsible for the day-to-day admi
ongoing servicing of the underlying portfolio of mortgages. It is resp
all reports and accounts for the trustee and Standard & Poor's in co
performance of the mortgages.

The origination, underwriting, and valuation processes of Britannic I
as well as its collection and default management procedures. Such
integral part of the corporate overview undertaken during the rating
transaction and is maintained throughout the transaction's life. Stan
satisfied that Britannic Money is capable of performing the functions
the collection of borrower payments and management of the arrears
cases.

Barclays Bank PLC (GIC Provider, Transaction Account Provic Provider, and Cap 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. In addition, Barclays Bank PLC acts a

Transaction Overview

On the closing date, and in accordance with the terms of a mortgage s
issuer acquired from Arianty No. 1 PLC the beneficial interest in the pc
issuer funded this purchase via the issuance of the class A, M, and B r
its interest in the mortgages and the collateral security to the trustee fo
noteholders in accordance with the deed of charge.

The issuer entered into a series of interest rate swaps with Morgan Gu
New York and Royal Bank of Scotland to eliminate interest risk associa
and three-month LIBOR linked loans. It also purchased a series of inte
Morgan Guaranty Trust Co. of New York and Barclays Bank PLC that I
against the interest rate exposure arising as a result of differences betv
interest charged on the mortgages and the threshold rate. In conjunctic
of the interest rate caps, a hedge reserve was established to cover cas
may arise as a result of the interest rate caps not being a perfect hedg

To hedge the interest rate risk between one-month LIBOR payable on
mortgage loans linked to base rate, the issuer entered into a swap witl
Scotland. The base rate not covered by this swap was hedged by the |
agreed amount of capital.

Redraw Risk

Substantially all of the mortgages acquired by the issuer from Arianty M
mortgages. The terms of the flexible mortgages allow borrowers to red
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%. Standard & Poor's has taken part of the inc
into account in certain rating scenarios.

Where redraw requests are validly made and funded, borrowers ultima
obligation to repay all amounts borrowed by the maturity dates of their
& Poor's was given access to historical data on the redraw component
but is aware that limited information is not necessarily an accurate pre
Consequently, conservative estimates were made as to the levels of p
requests throughout the life of the mortgages. A redraw facility in the a
was made available to the issuer to fund potential redraw requests in t
issuer has insufficient funds to do so. Standard & Poor's views this lev
cover any redraw requests that could arise, based on conservative ass

In circumstances where the redraw requests cannot be funded, borrow
claims for damages, which may ultimately affect the issuer's obligation
yet there exists no legal precedent to give clear guidance on how cour
potential claims against Britannic Money for redraw requests that are v
cannot be funded.

Note Terms and Conditions

The issuer issued three classes of notes, namely, the class A, M, and
the class A, M, and B notes is payable at one-month British pound ster
yearly margin of 27 basis points (bps) on the A notes, 85bps on the M
the B notes, stepping up after July 2008. Interest on the notes is payat
on the first business day of each calendar month except for the first pa
which is made in respect of the period commencing on (and including)
ending on (but excluding) the interest payment date falling in Septemb

Substitutions

The issuer has the right to purchase substitute mortgages on any in
up to the interest payment date falling in July 2004. The issuer purc
mortgage loans to the extent it receives scheduled principal from re
and redemptions and these receipts are not needed to fund redraws
these mortgages is subject to certain criteria and credit assessment
detailed in the underlying documentation. To the extent prepaymen
are not needed to fund redraws, these payments are passed throug

Mandatory Redemption

The notes are subject to mandatory redemption in part on each inte
from available funds. There is no mandatory redemption of the clas
the class A notes are still outstanding until five years after the end c
period. Thereafter, the notes may be redeemed pro rata subject to c
being met.

Optional Redemption

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

- If the notes become subject to a withholding tax;
- On the interest payment date falling in July 2008 or on any p 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 2036.

Credit and Liquidity Support

Support for the class A notes is provided by a combination of the subo notes, class B notes, excess spread on the mortgages, and the cash r for the class M notes is provided by the subordinate class B notes, exc mortgages, and the cash reserve fund. Support for the class B notes is excess spread on the mortgages and the cash reserve fund.

Collateral Details

The provisional mortgage pool amounted to £427.2 million (comprising loans in the provisional pool were originated by Britannic Money betwe and June 2001 and have been administered by Britannic Money since notes issued include an amount equal to the principal outstanding amc loans. Pre-funded loans total about £72.8 million. These loans will be f the issuer no later than the third interest payment date.

Features of the provisional mortgage pool include the following:

- Each loan is secured by a first legal charge of a residential prop
- Of the total mortgages, 41.6% are capital repayment mortgages interest-only mortgages by value. Of the interest-only mortgage: as endowment mortgages.
- 52% of the mortgages are "Investment Home Loan" mortgages owner-occupied mortgages.
- The weighted-average loan-to-value (LTV) ratio of the current m 66.1% (by drawn amount).
- The weighted-average LTV of the mortgage pool, assuming the redraws, is 67.8%.
- The average outstanding mortgage balance is £81,972. The dra balances range between about £239 and £1,649,700. The poter range between £0 and £600,000.
- The average potential redraw amount is £4,494.
- The largest concentration of mortgages by geographic area is ir England (including London) with 52.7% of all the mortgages (by

Standard & Poor's Stress Test

The analysis includes a conservative assessment of the credit risk inhe transaction. The credit enhancement levels were sized after analyzing severe stress scenarios would have on the collateral. In determining th mortgage pool, an estimate must be made of a worst case of potential occur because of foreclosures. In this instance this was sized using the balance in respect of the flexible mortgages as opposed to the current This estimate of potential losses is the amount of loss protection neede

A feature of the portfolio is the buy-to-let mortgages, which comprise 5 (by drawn balance). These include professional lettings. The levels of originator are considered to be conservative, but the characteristics of create additional risks relative to a typical prime mortgage portfolio, no weighted-average LTV ratio of this portfolio.

The cash flows simulate the performance of this portfolio within the tra documented structure under certain stressful scenarios. In addition, th the swaps, caps and cash reserves to prevent the interest rate mismat accounts of the issuer are required to be with suitably rated providers.

Surveillance Details

Continual surveillance is maintained on the transaction until the notes otherwise retired. To do this, regular servicer reports detailing the perf underlying collateral are analyzed, supporting ratings are monitored, a made with the servicer to ensure that minimum servicing standards are that any material changes in the servicer's operations are communicat

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