

# Homeloans (No.1) PLC

*(Incorporated with limited liability in England and Wales with registered number 2637507)*

**£112,500,000**

***Class A Mortgage Backed Floating Rate Notes Due 2030***

**Issue price: 100%**

**£10,000,000**

***Mezzanine Mortgage Backed Floating Rate Notes Due 2030***

**Issue price: 100%**

Interest on the £112,500,000 Class A Mortgage Backed Floating Rate Notes Due 2030 (the "Class A Notes") and the £10,000,000 Mezzanine Mortgage Backed Floating Rate Notes Due 2030 (the "Mezzanine Notes") (the Class A Notes and the Mezzanine Notes together the "Notes") of Homeloans (No.1) PLC (the "Issuer") will be payable in pounds sterling quarterly in arrear on the last business day falling in January, April, July and October (each an "Interest Payment Date") in each year commencing on the last business day in April 1996. Interest on the Mezzanine Notes will be paid on an Interest Payment Date only to the extent that there are funds available to the Issuer on the Principal Determination Date (as defined herein) applicable to such Interest Payment Date to pay interest on the Mezzanine Notes, as more particularly described herein. To the extent that such funds are insufficient to pay the full amount of interest on the Mezzanine Notes on such Interest Payment Date, payment of the shortfall will be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such shortfall to the extent of such available funds. Such deferred interest will accrue interest at the rate of interest accruing on the Mezzanine Notes from time to time. The interest rates applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate ("LIBOR") for three-month sterling deposits (other than in respect of the first Interest Period - see "Description of the Class A Notes, the Global Class A Notes and the Security - Terms and Conditions" and "Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security - Terms and Conditions" below) plus a margin which will differ for each class of Notes. The margins applicable to each class of Notes, and the Interest Periods (as defined herein) for which such margins apply, will be as set out below:

Class A Notes: 0.13% per annum up to and including the Interest Period ending in January 2004 and thereafter 0.60% per annum; and Mezzanine Notes: 0.80% per annum up to and including the Interest Period ending in January 2004 and thereafter 2.00% per annum.

The first Interest Period is expected to commence on (and include) 13th December 1995 and end on (but exclude) the last business day in April 1996.

Interest payments on the Notes will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor.

The Notes will be subject to mandatory redemption in part from time to time on any Interest Payment Date in accordance with the provisions set out under "Description of the Class A Notes, the Global Class A Notes and the Security - Redemption and Purchase" and "Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security - Redemption and Purchase" below.

In certain other circumstances, and at certain times, the Notes may be redeemed at the option of the Issuer at their principal amount outstanding together with accrued interest on any Interest Payment Date (see "Description of the Class A Notes, the Global Class A Notes and the Security - Redemption and Purchase" and "Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security - Redemption and Purchase" below).

The Mezzanine Notes will be secured by the same security that will secure the Class A Notes but the Class A Notes will rank in priority to the Mezzanine Notes in the event of the security being enforced. The right to payment of interest on the Mezzanine Notes will be subordinated and may be limited as described herein (see "Summary - Interest" below). As a result, no assurance is given as to the amount (if any) of interest on the Mezzanine Notes which may actually be paid on any Interest Payment Date.

The Class A Notes are expected, on issue, to be assigned an Aaa rating by Moody's Investors Service, Inc. ("Moody's"). The Mezzanine Notes are expected, on issue, to be assigned a Baa2 rating by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for the Notes to be admitted to the Official List. Copies of this Offering Circular, which comprises approved listing particulars with regard to the Issuer and the Notes in accordance with the listing rules made under Part IV of the Financial Services Act 1986, have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act.

The Notes of each class will be initially represented by a Temporary Global Note, without coupons or talons, which will be deposited with Morgan Guaranty Trust Company of New York, London office, as common depositary for the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel Bank") (the "Common Depositary") at the closing of the issues of the Notes (which is expected to be on or about 13th December 1995). The Temporary Global Note relating to each class of Notes will be exchangeable 40 days after the closing of the issues of the Notes (provided that certification of non-U.S. beneficial ownership has been received) for interests in a Permanent Global Note relating to the same class which will also be deposited with the Common Depositary. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

Simultaneously with the issues of the Notes, the Issuer will issue unlisted Convertible Cumulative Secured Subordinated Loan Stock 2030 (the "Loan Stock") in an initial tranche of up to £4,800,000. The Loan Stock will be secured by the same security that will secure the Notes, although the Loan Stock will be subordinated to the Notes in point of payment of principal and interest, and the Notes will rank in priority to the Loan Stock in the event of the security being enforced (see "Summary - Priority of Payments" and "Summary - Security for the Notes" below).

Particular attention is drawn to the section herein entitled "Special Considerations".

## **Class A Notes Managers**

**J.P. Morgan Securities Ltd.**

**Creditanstalt-Bankverein**

**ING Barings**

**Goldman Sachs International**

**The Royal Bank of Scotland plc**

**Lehman Brothers**

**Mezzanine Notes Manager**

**J.P. Morgan Securities Ltd.**

*The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*No person has been authorised to give any information or to make any representation other than as contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Trustee, J.P. Morgan Securities Ltd. (“JPMSL”) or the Managers (as defined in “Subscription and Sale” below). Neither the delivery of this Offering Circular nor any sale or allotment made in connection with the offering of the Notes shall under any circumstances constitute a representation or create any implication that there has been no change in the information contained herein since the date hereof.*

*The Notes will be obligations of the Issuer, secured by the security described in this Offering Circular. The Notes will not be obligations or responsibilities of, or guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations or responsibilities of, or be guaranteed by, NHL, HLDDL, Holdings (each as defined herein), JPMSL, the Managers, the Trustee, Barclays Bank PLC (“Barclays”) or the Common Depositary or any company in the same group of companies as Holdings (other than the Issuer) or the Trustee or Barclays. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by NHL, HLDDL, Holdings, JPMSL, the Managers, the Swap Counterparty, the Trustee, Barclays or the Common Depositary or any company in the same group of companies as Holdings (other than the Issuer) or the Trustee or Barclays or any other person other than the Issuer.*

*None of the Managers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular. Each potential purchaser of Notes should determine the relevance of the information contained in this Offering Circular and the purchase of Notes should be based upon such investigation as each purchaser deems necessary. None of the Managers undertakes to review the financial condition or affairs of the Issuer nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Managers.*

*This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Managers or any of them to subscribe for or to purchase any of the Notes.*

*No action has been taken by the Issuer or the Managers other than as set out in the eighth paragraph on the first page hereof that would permit a public offer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any offering circular, prospectus, form of application, advertisement or other offering material may be issued or distributed or published in any country or jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations and the Managers have represented that all offers and sales by them have been and will be made on such terms. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offers and sales of Notes and distribution of this Offering Circular, see “Subscription and Sale” below. For a description of the certification requirements as to non-U.S. beneficial ownership, see “Description of the Class A Notes, the Global Class A Notes and the Security” and “Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security” below.*

*The Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended). The Notes are in bearer form and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered at any time directly or indirectly in the United States of America or to U.S. Persons.*

*References in this document to “£”, “pounds”, “sterling” or “pounds sterling” are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.*

**In connection with the issues of the Notes, J.P. Morgan Securities Ltd. may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.**

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## SUMMARY

The information on the first page and page 2 and the following information relating to the Notes and the Mortgages is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular.

<b>Issuer</b>	Homeloans (No.1) PLC, a public company incorporated under the laws of England, registered number 2637507 and a wholly owned subsidiary of National Home Loans Holdings PLC (“Holdings”), the ordinary shares of which are listed on the London Stock Exchange.
<b>Mortgage Administrator</b>	The National Home Loans Corporation plc (“NHL” or the “Administrator”), a public company incorporated under the laws of England and a wholly owned subsidiary of Holdings.
<b>Mortgage Originators</b>	Save in respect of those Local Authority Mortgages (as defined in “The Mortgages” below) which were originated by certain local authorities, the Mortgages were originated by Homeloans Direct Limited (“HLDL”), a wholly owned subsidiary of Holdings, and NHL.
<b>The Trustee</b>	Morgan Guaranty Trust Company of New York, acting through its London office.
<b>The Notes</b>	<p>£112,500,000 Class A Mortgage Backed Floating Rate Notes Due 2030 and £10,000,000 Mezzanine Mortgage Backed Floating Rate Notes Due 2030. The Notes will be obligations of the Issuer secured by the security described below but the Class A Notes will rank in priority to the Mezzanine Notes in the event of the security being enforced. Certain rights of the Noteholders (see, for example, Conditions 9 and 13 of “Description of the Class A Notes, the Global Class A Notes and the Security – Terms and Conditions” and Conditions 10 and 14 of “Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security – Terms and Conditions”) are determined by reference to the Principal Amount Outstanding of the Notes from time to time. <b>The Notes will not be obligations or responsibilities of, or guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations or responsibilities of, or guaranteed by, NHL, HLDL, Holdings, JPMSL, the Managers, the Swap Counterparty, the Trustee, Barclays, the Common Depositary or any company in the same group of companies as Holdings (other than the Issuer) or the Trustee or Barclays.</b></p> <p><b>No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by NHL, HLDL, Holdings, JPMSL, the Managers, the Swap Counterparty, the Trustee, Barclays, the Common Depositary or any company in the same group of companies as Holdings (other than the Issuer) or the Trustee or Barclays or any other person other than the Issuer.</b></p> <p><b>Payments in respect of the Mezzanine Notes will only be made if and to the extent that there are sufficient funds after paying or providing for certain liabilities, including in respect of the Class A Notes. The Mezzanine Notes rank after the Class A Notes in point of security.</b></p>
<b>Interest</b>	<p>The interest rate applicable to the Notes from time to time will be determined by reference to LIBOR for three-month sterling deposits (other than in respect of the first Interest Period – see “Description of the Class A Notes, the Global Class A Notes and the Security – Terms and Conditions”, and “Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security – Terms and Conditions”) below plus a margin which will differ for each class of Notes. The margins applicable to each class of Notes, and the Interest Periods for which such margins apply, will be as set out below:</p> <p>Class A Notes: 0.18% per annum up to and including the Interest Period ending in January 2004 and thereafter 0.60% per annum; and</p>

Mezzanine Notes: 0.80% per annum up to and including the Interest Period ending in January 2004 and thereafter 2.00% per annum.

Interest payments on the Mezzanine Notes will be subordinated to payments on the Class A Notes (see “Priority of Payments” below) so that Mezzanine Noteholders will not be entitled to receive any payment of interest unless and until all amounts of interest then due to Class A Noteholders have been paid in full.

**To the extent that funds are insufficient to pay the interest otherwise due on the Mezzanine Notes, the deficit will not then be paid but will only be paid on subsequent Interest Payment Dates if and when permitted by subsequent cash flow which is surplus to the Issuer’s liabilities of a higher priority (see “Priority of Payments” below) on the relevant Interest Payment Date. Such shortfall will accrue interest during the time it remains unpaid. To the extent that any such shortfall is not made good by subsequent surplus cash flow as aforesaid, then, at the final maturity or on the earlier redemption, consequent upon an Event of Default (as defined in “Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security – Terms and Conditions” below) or in certain other circumstances, of all the Mezzanine Notes, the Issuer’s obligation in respect of any remaining shortfall will cease.**

Interest is payable in respect of the Notes (provided certification of non-U.S. beneficial ownership by the Noteholders has been received) in pounds sterling quarterly in arrear on the last business day in January, April, July and October in each year, commencing on the last business day in April 1996.

The first Interest Period will commence on (and include) the date of the closing of the issues of the Notes, which is expected to be 18th December 1995 or such later date as may be agreed between the Issuer and the Managers or the Manager for each class of Notes (the “Closing Date”), and end on (but exclude) the last business day in April 1996. Each subsequent Interest Period applicable to the Notes will commence on (and include) an Interest Payment Date and end on (but exclude) the next succeeding Interest Payment Date. Interest payments will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor.

## **Security for the Notes**

The Notes will be secured by first ranking security interests over certain mortgages to be purchased by the Issuer (the “Mortgages”) and life assurance policies (if applicable) and mortgage guarantee indemnity insurance (if applicable) relating thereto, over all other insurances in which the Issuer has an interest, over the Issuer’s rights under the agreement with NHL, HLDL, the Trustee and certain affiliated companies of NHL (as specified in “Special Considerations” below) for the sale of the Mortgages (the “Mortgage Sale Agreement”), over the Issuer’s rights under the agreement to be entered into with NHL, HLDL and the Trustee for the continuing administration of the Mortgages (the “Administration Agreement”), over the Issuer’s rights under the NHL Subordinated Loan Agreement and Fee Letter (each as defined below), over the Issuer’s rights under the Swap Agreement (as defined below), over the Issuer’s rights under the NHL Collection Account Declaration of Trust and the HLDL Collection Account Declaration of Trust (each as defined below), over the Issuer’s rights under the Guaranteed Investment Contract (as defined below) (if any), over the Issuer’s rights under the Caps (as defined below) (if any), over the Issuer’s rights under the agreement to be entered into with Barclays for Barclays to act as administrator of last resort (the “Substitute Administrator Agreement”), over the Issuer’s rights under the VAT Declaration of Trust (as defined below), over the Reserve Fund (as defined below), over any investments in which the Issuer may place its cash resources and (subject to the reservation expressed in “Special Considerations” below) over payments from the Inland Revenue under the Mortgage Interest Relief at Source (MIRAS) Scheme and by an assignment of the Issuer’s rights

to all moneys standing to the credit of the bank account of the Issuer with National Westminster Bank PLC (or such other bank as the Issuer, subject to certain restrictions and with the consent of the Trustee, may from time to time select for such purpose) into and out of which all payments to and by the Issuer will be made (the "Transaction Account") and certain other bank accounts in which the Issuer has an interest. These security interests will be fixed except in relation to certain investments and moneys standing to the credit of such bank accounts over which the security may be by way of floating charge (thus ranking behind claims of certain creditors preferred by law) and in relation to MIRAS payments, in respect of which the situation is described below. In addition, subject as mentioned above, the Notes will be secured by a floating charge over all the assets and undertaking of the Issuer other than those covered by fixed security.

The Class A Notes and the Mezzanine Notes will be constituted by the same trust deed and will share the same security but the Class A Notes will rank in priority to the Mezzanine Notes in the event of the security being enforced.

Certain other amounts, including the amounts owing to the Trustee and any receiver, the amounts owing for the time being to the holders of the Loan Stock (the "Stockholders"), any amounts payable to Barclays under the Substitute Administrator Agreement, any amounts payable to the Swap Counterparty (as defined below) under the Swap Agreement, any amounts payable to the GIC Provider (as defined below) under any Guaranteed Investment Contract, the fees and expenses of, and commissions payable to, and all other amounts owing to, the Administrator and/or any substitute administrator and all amounts owing to NHL and HLDL under, *inter alia*, the Mortgage Sale Agreement and the Fee Letter and amounts owing under the NHL Subordinated Loan Agreement referred to below, will also have the benefit of the security interests referred to above. The terms on which such security interests will be held will provide that, upon enforcement, all amounts payable to any receiver and the Trustee, any amounts payable to Barclays under the Substitute Administrator Agreement, the fees, expenses and commissions payable to the Administrator and/or any substitute administrator and all amounts payable to the Swap Counterparty under the Swap Agreement will rank in priority to payments of interest or principal on the Notes and amounts owing to the Mezzanine Noteholders will rank in priority after all payments on the Class A Notes and amounts owing to the GIC Provider under the Guaranteed Investment Contract and to NHL and HLDL under the Mortgage Sale Agreement and the Fee Letter and amounts owing under the NHL Subordinated Loan Agreement and the Loan Stock will rank in priority after all payments on both the Class A Notes and the Mezzanine Notes.

### **Priority of Payments**

Moneys received by the Issuer from borrowers or recovered under the Mortgages (other than amounts of principal, which will be dealt with in the manner described under "Mandatory Redemption in Part" below) and other net income of the Issuer will be applied from time to time in making payment of certain moneys which properly belong to third parties (such as overpayments by borrowers or by the Inland Revenue under the MIRAS Scheme) and of sums due to third parties under obligations incurred in the course of the Issuer's business (save insofar as the intended recipient agrees otherwise) and in making certain provisions. Until enforcement of the security for the Notes, the following payments and provisions are required to be made on each Interest Payment Date in the following order of priority (in each case only if and to the extent that payments and provisions of a higher priority have been made in full):

- (i) payments of amounts payable by the Issuer to the Trustee and amounts payable to Barclays pursuant to the Substitute Administrator Agreement (other than the commitment fee referred to therein);
- (ii) payment of all fees, costs, expenses and commissions payable to the Administrator and/or any substitute administrator under the Administration Agreement and the commitment fee payable to Barclays pursuant to the Substitute Administrator Agreement;
- (iii) payment of all amounts payable to the Swap Counterparty under the Swap Agreement;
- (iv) payment of interest due or overdue on the Class A Notes together with (if applicable) interest thereon;
- (v) payment of sums due to third parties under obligations incurred in the course of the Issuer's business and provision for and payment of the Issuer's liability (if any) to value added tax and to mainstream corporation tax (after deducting any available advance corporation tax credit on distributions made by the Issuer to the extent that such advance corporation tax has been accounted for to the Inland Revenue) and the balance, if any, of the VAT liability of the NHL VAT Group following a demand being made by H.M. Customs & Excise on the Issuer where the VAT liability is not satisfied in full in accordance with the Deed of Charge and the VAT Declaration of Trust (see "The NHL VAT Group" below);
- (vi) payment of interest due or overdue on the Mezzanine Notes together with (if applicable) interest thereon;
- (vii) provision for an amount necessary to replenish the First Loss Fund (as defined below) to the relevant amount specified in "First Loss Fund" below;
- (viii) provision for an amount up to, and to that extent reducing, the provision (if any) in the Issuer's accounts (the Principal Deficiency Ledger (as defined in the Administration Agreement (and as described in "Mortgage Administration – Arrears and Default Procedures"))) below against the whole or part of deficits suffered in recovering amounts of principal due from borrowers under the Mortgages or resulting from principal being applied in paying interest on the Class A Notes or in refunding reclaimed direct debit payments; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds (as defined below);
- (ix) provision for any amounts then due or overdue to NHL or HLDL under the Fee Letter;
- (x) provision for, at the option of the Issuer, a reserve to fund any purchases of Caps (as defined in "The Issuer – Interest Rate Cap Agreements and Cap Providers" below) and/or related guarantees in the next Interest Period;
- (xi) provision for interest due under the NHL Subordinated Loan Agreement;
- (xii) payment of interest which, by the terms and conditions of the Loan Stock is due and payable except to the extent satisfied by the issue of additional Loan Stock by the Issuer in accordance with the Instrument (as defined below);
- (xiii) provision for payment to the Administrator or NHL of such fees as the Issuer and the Administrator or NHL, as the case may be, may agree in respect of facilities or services provided to the Issuer by the Administrator or NHL, as the case may be, other than fees referred to above; and
- (xiv) provision for the amount of any distributions to be made by the Issuer plus any advance corporation tax in respect thereof

all as set out in a deed of sub-charge and assignment to be entered into between the Issuer, the Trustee, NHL, HLDL, the Administrator, the Swap Counterparty and Barclays (the “Deed of Charge”). If and to the extent that the provisions specified in paragraphs (ix), (xi), (xiii) and (xiv) are made on such Interest Payment Date, the relevant amounts shall be paid to the persons entitled thereto on or after the seventh day after such Interest Payment Date (save in the case of advance corporation tax which shall be paid on the due date for payment thereof) to the extent that the Issuer’s available revenue funds are sufficient for such purpose. If on any Interest Payment Date, while any Class A Note remains outstanding, application in the order set out above would result in the sum of (x) any debit balance on the Principal Deficiency Ledger and (y) the aggregate of the amounts specified in paragraphs (i) to (v) inclusive above to the extent that such amounts would not be paid or provided for in full following such application, exceeding the sum of (a) the then resulting current balance of the First Loss Fund and (b) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Mezzanine Notes) of the Mezzanine Notes (after deducting the amount of any Mezzanine Available Redemption Funds on the Principal Determination Date relating to such Interest Payment Date), then, to the extent of such excess the payment specified in paragraph (vi) shall be postponed and shall instead be paid after any provision referred to in paragraphs (vii) and (viii) (but prior to any provision referred to in paragraph (ix)). With effect from the first day on which no Class A Note is outstanding the payment specified in paragraph (vii) shall be postponed and shall instead be paid immediately after the payment referred to in paragraph (viii).

Save for the First Loss Fund, the Issuer will not be required to accumulate surplus assets as security for any future payments on the Notes.

**Mandatory Redemption  
in Part**

Prior to enforcement, the Notes will be subject to mandatory redemption in part on each Interest Payment Date in an aggregate principal amount calculated by reference to the Available Redemption Funds as determined on the ninth day or, if earlier, the fifth business day prior to such Interest Payment Date (a “Principal Determination Date”). Up to and including the first Interest Payment Date on which the ratio of the aggregate Principal Amount Outstanding of the Mezzanine Notes to the aggregate Principal Amount Outstanding of both the Class A Notes and the Mezzanine Notes is 20 : 122.5 or more (such circumstance constituting the “Determination Event”), all Available Redemption Funds will be applied in mandatory redemption of the Class A Notes. After the occurrence of the Determination Event, Available Redemption Funds will, provided there is a balance of zero on the Principal Deficiency Ledger, be applied in redemption of both the Class A Notes and the Mezzanine Notes so as to achieve and then maintain the above ratio provided that if all Class A Notes have been redeemed, all Available Redemption Funds will be applied to redeem the Mezzanine Notes and provided that while any Class A Note remains outstanding the aggregate Principal Amount Outstanding of the Mezzanine Notes may not be less than £1,000,000. After the occurrence of the Determination Event, the balance of the Available Redemption Funds not applied in redemption of the Mezzanine Notes will be applied in redemption of the Class A Notes.

The Issuer will cause the Administrator to determine the Available Redemption Funds and the pro rata amount of principal payable on each Note on each Principal Determination Date.

“Available Redemption Funds” on any Principal Determination Date means:

- (a) the aggregate of:



(i) all principal received or recovered in respect of Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents (as defined in “Description of the Class A Notes, the Global Class A Notes and the Security” and “Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security” below) but excluding any such principal which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer) during the period from (and including) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (but excluding) the Principal Determination Date in question (the “relevant Collection Period”);

(ii) any final releases (as defined below) made or to be made to the Issuer from the Reserve Fund referred to below in the relevant Collection Period;

(iii) in the case of the first Principal Determination Date, the amount (if any) by which the aggregate principal amount of the Class A Notes and the Mezzanine Notes on issue exceeds the aggregate of the amounts paid in cash and not by the issue of Loan Stock to acquire Mortgages on the Closing Date in accordance with the Mortgage Sale Agreement and the amounts applied in establishing the Reserve Fund;

(iv) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes or Mezzanine Notes on the Interest Payment Date relative thereto; and

(v) any part of the amount deducted pursuant to (b)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances (each as defined below), in purchasing and cancelling Class A Notes or in paying interest on the Class A Notes, in each case on or prior to the preceding Interest Payment Date; less

(b) the aggregate of:

(i) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period);

(ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings from the Reserve Fund referred to below;

(iii) the aggregate Principal Amount Outstanding of Class A Notes purchased and cancelled during the relevant Collection Period or (as a result of any commitment entered into during such relevant Collection Period) expected to be purchased and cancelled on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period;

(iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due and overdue on the Class A Notes on that Interest Payment Date, such estimate to be made on the assumption that the amount of interest due on that Interest Payment Date on each Mortgage on which the due amount was paid on the last business day of the preceding month will be paid in full, all as set out in the Administration Agreement; and

(v) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments, in each such case (save for (a)(iv) and (v) above) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date.

**Optional Redemption of Class A Notes**

All (but not some only) of the Class A Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class A Notes or in the event of certain other United Kingdom taxation changes (although the Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction). Furthermore, the Issuer will also be entitled, but not obliged, to redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after January 2002.

All (but not some only) of the Class A Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes then outstanding is less than £24,500,000.

**Optional Redemption of Mezzanine Notes**

Provided that there are no Class A Notes then outstanding or all Class A Notes are to be redeemed at the same time, all (but not some only) of the Mezzanine Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Mezzanine Notes or in the event of certain other United Kingdom taxation changes (although the Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction).

Provided that there are no Class A Notes then outstanding or all the Class A Notes are to be redeemed at the same time, all (but not some only) of the Mezzanine Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after January 2002 or, if earlier, falling on or after the date on which all the Class A Notes are redeemed.

**Purchase of Notes**

Prior to the Determination Event, the Issuer may, at its option, apply principal moneys in the purchase of Class A Notes in the open market or otherwise at any price at or below their Principal Amount Outstanding (excluding accrued interest and expenses). Any Class A Notes so purchased will be cancelled. The Issuer may not purchase Class A Notes after the occurrence of the Determination Event. The Issuer may not purchase Mezzanine Notes at any time.

**Final Redemption**

To the extent not otherwise redeemed or purchased and cancelled, the Notes will be redeemed at their Principal Amount Outstanding (less, in the case of the Mezzanine Notes, the applicable Principal Deficiency (as defined in “Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security – Subordination” below)) on the Interest Payment Date falling in October 2030.

**Principal Amount Outstanding and Pool Factor**

The Principal Amount Outstanding of a Note, irrespective of class, will be its initial principal amount of £10,000 less the aggregate amount of principal repayments that have been made or fallen due (whether or not paid) on that Note. The Pool Factor for each Note during an Interest Period will be determined by dividing the Principal Amount Outstanding of such Note on the first day of that Interest

Period (after deducting any principal repayment due on that day) by 10,000 and expressing the quotient to the sixth decimal place.

The Issuer will cause the Administrator to determine the Principal Amount Outstanding and the Pool Factor for each Note of a particular class for each Interest Period and such determination will be published on the Reuters Screen by not later than five business days before the first day of such Interest Period.

## **The Mortgages**

The Mortgages to be acquired by the Issuer on the Closing Date and which will form part of the security for the Notes (the "Mortgage Pool") will comprise mortgages originated by NHL, mortgages acquired by NHL and of which either NHL or an affiliate of NHL is now the legal owner (the "NHL Mortgages") and mortgages originated by HLDL ("HLDL Mortgages"). All the Mortgages are secured by charges over freehold or leasehold residential properties located in England or Wales (the "Properties"). Comprised in the mortgages in the Provisional Mortgage Pool (as defined in "The Provisional Mortgage Pool" below) are mortgages in respect of which, as at 1st December 1995, payments due from borrowers were in arrears by an amount in excess of one current monthly payment (each such mortgage being an "Arrears Mortgage" and any mortgage in respect of which borrowers were not so in arrears on such date being a "Current Mortgage").

Arrears of interest in respect of Arrears Mortgages will not be purchased by the Issuer on the Closing Date and any payments received in respect of those Mortgages after the Closing Date will be first applied towards those arrears and accounted for to NHL or HLDL (as the case may be). The Mortgages in the Mortgage Pool will have had original maturities of up to 35 years. Principal payments may be made in whole or in part at any time during the term of a Mortgage in the Mortgage Pool at the option of a borrower. Any such payments received by the Issuer (whether or not scheduled) will form part of the moneys included in the calculation of Available Redemption Funds.

### **NHL Mortgages**

The NHL Mortgages comprise standard floating rate mortgages ("Standard Mortgages") and certain other types of mortgages ("Non-Standard Mortgages") described below. In addition to Standard Mortgages, the NHL Mortgages include Local Authority Mortgages, NHL Shared Ownership Mortgages, Non-Standard Mortgages and Excluded Mortgages, all as described below (see "The Mortgages" and "The Provisional Mortgage Pool" below). Save in respect of the Excluded Mortgages and the Local Authority Mortgages, all of the NHL Mortgages in the Mortgage Pool will consist of mortgages which met certain lending criteria (see "NHL Lending Guidelines" below) at the time of origination by NHL. The Issuer will have the benefit of warranties given by NHL in relation to the NHL Mortgages other than in respect of the Excluded Mortgages, NHL Shared Ownership Mortgages and the Local Authority Mortgages, including warranties in relation to the lending criteria applied in advancing the loans. Only certain warranties (see "The Provisional Mortgage Pool" below) will be given as to the Excluded Mortgages, NHL Shared Ownership Mortgages and the Local Authority Mortgages. NHL will be required to repurchase any NHL Mortgage sold by it in relation to which there is a material breach of warranty. The Excluded Mortgages acquired on the Closing Date shall have as at the Closing Date a principal amount outstanding of not more than £6,770,949, the NHL Mortgages in respect of shared ownership leases (the "NHL Shared Ownership Mortgages") acquired on the Closing Date shall have as at the Closing Date a principal amount outstanding of not more than £301,761 and the Local Authority Mortgages acquired on the Closing Date shall have as at the Closing Date a principal amount outstanding of not more than £267,393 (see "The Provisional Mortgage Pool" below).

Each NHL Mortgage which is a Non-Standard Mortgage may have been on origination, or become subsequently, any one of, or a combination of, a Blue Chip Mortgage, a Fixed Rate Mortgage, a Staff Mortgage or a Stabilised Rate Mortgage (see the descriptions of these product types under “The Mortgages” below).

### **HLDL Mortgages**

The HLDL Mortgages comprise Standard Mortgages, Variable Discount Mortgages, Fixed Rate Mortgages, HLDL Mortgages in respect of shared ownership leases, Premier Rate Mortgages and LIBOR-Linked Mortgages (see “The Mortgages” below).

All the HLDL Mortgages in the Mortgage Pool will consist of mortgages which met certain lending criteria (see “HLDL Lending Guidelines” below) at the time of origination by HLDL. All the HLDL Mortgages are secured by charges over freehold or leasehold residential properties in England or Wales. The Issuer will have the benefit of warranties given by HLDL in relation to the HLDL Mortgages. HLDL will be required to repurchase any Mortgage sold by it in relation to which there is a material breach of warranty.

### **Further Advances**

Further advances may only be made on an NHL Mortgage or HLDL Mortgage if the NHL or HLDL (as the case may be) lending criteria as far as applicable are satisfied at the relevant time, as provided in the Administration Agreement.

Each further advance made (a) to fund deferred interest in respect of a Stabilised Rate Mortgage or (b) to advance any part of the original advance retained pending completion of construction or refurbishment is referred to as a “Mandatory Further Advance”. Any further advance other than a Mandatory Further Advance is referred to as a “Discretionary Further Advance”. The Issuer may, subject to the satisfaction of certain conditions, make or fund Discretionary Further Advances on the Mortgages in the Mortgage Pool at any time, provided there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date and provided that Discretionary Further Advances in respect of such Mortgages (other than by way of capitalisation of arrears) are subject to an aggregate cumulative limit of £20,000,000.

### **Selection of Mortgages**

The Mortgages to be purchased by the Issuer on the Closing Date will have an aggregate principal amount of not less than £115,000,000. All the Mortgages expected to be purchased by the Issuer on the Closing Date will be selected from a larger pool of mortgages to which the statistical and other information contained in this document relates (the “Provisional Mortgage Pool”). Included in the Mortgages so purchased will be Mortgages to be acquired by NHL and HLDL from affiliated companies of NHL and HLDL, respectively.

### **Conversion of Mortgages**

Any Mortgage in the Mortgage Pool may, subject to certain conditions, be converted into a different type of mortgage (a “Converted Mortgage”). Accordingly, any Converted Mortgage may differ from the Mortgages described under “The Mortgages” below which are to be purchased by the Issuer on the Closing Date.

If any Converted Mortgages comprise Fixed Rate Mortgages, the Issuer will on or before the date of conversion have entered into one or more interest rate cap agreements for such Converted Mortgages with any related guarantees (see “The Issuer – Interest Rate Cap Agreements and Cap Providers” below).

### **Receipt of Moneys**

All direct debit payments made by borrowers under the Mortgages will be paid directly into the Transaction Account. All other moneys paid in respect of the Mortgages in the Mortgage Pool including payments received in the ordinary course from borrowers by cheque, redemption moneys and moneys recovered on the sale of the relevant Properties

following enforcement of any Mortgages in the Mortgage Pool will be paid into NHL collection accounts (in relation to Mortgages purchased by the Issuer from NHL) and into an HLDL collection account (in relation to Mortgages purchased by the Issuer from HLDL) and will be transferred on the next following business day, or as soon as practicable thereafter, to the Transaction Account. NHL executed a declaration of trust over its collection accounts at National Westminster Bank PLC and at Midland Bank plc in August 1992 as supplemented by a supplemental declaration of trust dated 19th March 1993, by a supplemental declaration of trust dated 26th August 1993 and by a supplemental declaration of trust dated 20th June 1994 and which shall be further amended by a supplemental declaration of trust to be dated the Closing Date (the “NHL Collection Account Declaration of Trust”) and HLDL executed a declaration of trust dated 13th May 1994 which shall be amended by a supplemental declaration of trust dated the Closing Date (the “HLDL Collection Account Declaration of Trust”) over its collection account at National Westminster Bank PLC under which, respectively, NHL and HLDL shall declare that all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Mortgages in the Mortgage Pool and certain other sums in respect of the Mortgages in the Mortgage Pool are held on trust for the Issuer until they are applied in the manner described above.

### **Mortgage Administration**

NHL will agree to administer the Mortgages on behalf of the Issuer, carrying out all administrative functions with the diligence and skill it would apply if it were a reasonably prudent mortgage lender administering its own mortgages. The Administrator will set the rates of interest applicable to the Mortgages (where relevant). NHL will receive, in priority to payments of interest on the Notes, an annual fee of not more than 0.37% (inclusive of VAT) on the aggregate interest charging balance of the outstanding Mortgages, payable quarterly in arrear. Any substitute administrator appointed (other than as administrator of last resort) would receive a fee consistent with that commonly charged at that time for the provision of mortgage administration services. Barclays will agree to be administrator of last resort and, in the event that it became the administrator, an annual fee of 0.37% (exclusive of VAT) on the aggregate interest charging balance of the Mortgages payable quarterly in arrear on each Interest Payment Date would be payable.

Under the Administration Agreement, the Administrator is given the duty, on behalf of the Issuer and the Trustee, of taking all reasonable steps to recover sums due to the Issuer, including under the Mortgages and in respect of the Issuer’s and the Trustee’s rights in the insurance and assurance policies referred to below.

### **Insurances**

With respect to each Mortgage in the Mortgage Pool, the mortgagee will, in addition to various buildings insurances, have originally held the benefit of security over one or more life assurance policies except in the case of a Repayment Mortgage or an Interest-only Mortgage (as defined in “The Mortgages” below) originated by NHL. Where a Repayment Mortgage or an Interest-only Mortgage has been originated by HLDL a term assurance policy will normally have been required. Borrowers may not have been making payment in full or on time of the premiums due on any relevant policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder. Save in respect of the Local Authority Mortgages, certain of the Excluded Mortgages and all NHL Shared Ownership Mortgages and HLDL shared ownership mortgages, each Mortgage in the Mortgage Pool where the original advance (excluding certain insurance premia and certain fees added to the amount of the original advance) when aggregated with any further advances scheduled to be made, or actually made, exceeded 75% (in the case of NHL Mortgages) or 70%

(in the case of HLDL Mortgages) of the lower of the purchase price, where appropriate, or market valuation of the relevant property or, in the case of NHL Mortgages which are Right-to-Buy Mortgages (as defined in “The Mortgages” below) where the original advance (excluding certain insurance premia and certain fees added to the amount of the original advance) exceeded 75% of the valuation of the relevant property, will also have the benefit of a mortgage guarantee indemnity insurance policy written by, in the case of NHL Mortgages, Sun Alliance and London Insurance plc (“Sun Alliance”) or Legal & General Assurance Society Limited (“Legal & General”) or, in the case of HLDL Mortgages, Lloyd’s of London (“Lloyd’s”) which will be assigned by NHL or HLDL, as the case may be, to the Issuer and, where necessary, assigned by way of security by the Issuer for the benefit of the Trustee (see “Special Considerations” below). The security for the Notes will include the relevant interests of the Issuer in respect of all such insurances and other miscellaneous insurances as described in “Insurance Coverage” below.

#### **Reserve Fund**

The NHL Mortgages in the Mortgage Pool may include Stabilised Rate Mortgages. The total amount payable in respect of deferred interest will be held in a fund (the “Reserve Fund”). The Reserve Fund will also take account of the interest which will accrue on the amounts of deferred interest before the borrowers commence paying interest at the NHL Standard Mortgage rate. The HLDL Mortgages in the Mortgage Pool may include Mortgages where a portion of the original amount advanced to the borrower is being retained, subject to completion of construction or refurbishment of the Property. The total amount of these retentions will also be held in the Reserve Fund. The Reserve Fund will be established on the Closing Date using part of the proceeds of the issue of the Notes. The Reserve Fund will be applied, directly or indirectly, to make further advances to borrowers as appropriate. Appropriate sums will be released to the Issuer from the Reserve Fund (“final releases”) to form part of Available Redemption Funds as and when such sums are no longer needed, for example, when any of the relevant Mortgages is redeemed or the period expires during which further advances must be made or the further advances in question have been made out of principal receipts. The Reserve Fund will be deposited in an account (the “Escrow Account”) with National Westminster Bank PLC (“NatWest”). The amount initially set aside in the Reserve Fund will not exceed £435,000. Interest earned on the Reserve Fund will be released to the Transaction Account.

#### **First Loss Fund**

On the Closing Date the Issuer will draw down £2,000,000 under the NHL Subordinated Loan Agreement for the purpose of establishing a fund (the “First Loss Fund”). Revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (vi) inclusive (or, to the extent that the priority of payment of interest due on the Mezzanine Notes is postponed, as set out in “Priority of Payments” above, items (i) to (v) inclusive) in “Priority of Payments” above will be applied on each of the first six Interest Payment Dates to replenish, and then increase, the First Loss Fund to a level of £166,666 above the maximum amount which was required to stand to the credit of the First Loss Fund on the preceding Interest Payment Date, or, in the case of the first Interest Payment Date, above £2,000,000. On each Interest Payment Date from (and including) the Interest Payment Date falling in July 1997, revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (vi) inclusive (or, to the extent that the priority of payment of interest due on the Mezzanine Notes is postponed, as set out in “Priority of Payments” above, items (i) to (v) inclusive) in “Priority of Payments” above will be applied to replenish the First Loss Fund to a level of £3,000,000.

The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of fees, expenses and commissions of, and payable to, the Trustee, Barclays (pursuant to the Substitute

Administrator Agreement) and the Administrator, all amounts payable to the Swap Counterparty under the Swap Agreement, interest due or overdue on the Class A Notes, sums due to third parties under obligations incurred in the course of the Issuer's business and (except to the extent that the priority of payment of interest due on the Mezzanine Notes is postponed, as set out in "Priority of Payments" above) interest due and overdue on the Mezzanine Notes (being the amounts referred to in items (i) to (vi) inclusive in "Priority of Payments" above) where the aggregate amount of the interest paid by the borrowers under the Mortgages, the net income from the investments in which the Issuer has placed its cash resources and certain other income of the Issuer and the amount available to the Issuer (if any) by reason of the provisions made in any Shortfall Fund as described below, is insufficient to pay such amounts.

Notwithstanding the above, the First Loss Fund will not be applied towards payment of interest due or overdue on the Mezzanine Notes to the extent that the priority of payment of such interest is postponed (as set out in "Priority of Payments" above).

The First Loss Fund may also be used to meet certain out-of-pocket expenses incurred by the Issuer and required to be paid otherwise than on an Interest Payment Date.

### **Shortfall Fund**

The Issuer may at any time with the prior consent of NHL draw down under the NHL Subordinated Loan Agreement for the purpose of establishing a shortfall fund (the "Shortfall Fund"). If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages and the rate of interest payable on the Reserve Fund is less than 1.50% until January 2004 and 2.00% thereafter above the LIBOR applicable to the Notes at that time then the Issuer may do so only if there is a sufficient credit balance in the Shortfall Fund in order to provide for the shortfall which would arise and the Issuer makes a provision in the Shortfall Fund equal to such shortfall.

Amounts standing to the credit of the Shortfall Fund (if any) may also be applied, on any Interest Payment Date to the extent necessary to pay or provide for items (i) to (vi) inclusive in "Priority of Payments" above. The Issuer may at any time with the prior consent of NHL draw down under the NHL Subordinated Loan Agreement further sums to replenish or increase any Shortfall Fund which sums may be applied in the manner set out above.

### **Swap Agreement**

Certain Fixed Rate Mortgages purchased by the Issuer on the Closing Date will be hedged by an interest rate exchange agreement (the "Swap Agreement") which the Issuer will enter into with Morgan Guaranty Trust Company of New York as swap counterparty (the "Swap Counterparty") and under which the Issuer will pay to the Swap Counterparty a fixed rate quarterly and the Swap Counterparty will pay to the Issuer quarterly amounts calculated by reference to LIBOR applicable to the Notes at such time.

Termination of the Swap Agreement may occur independently of an Event of Default (as defined below). This may give rise to a termination payment due either to or from the Issuer which, in the case of a payment due from the Issuer, will rank in priority to payments on the Notes as provided above.

### **Cap Agreements and Cap Providers**

Certain Fixed Rate Mortgages purchased by the Issuer on the Closing Date will be hedged by way of interest rate caps (the "Caps") which will initially be made available to the Issuer by means of Cap agreements entered into with one or more counterparties (the "Cap Providers"). In the event that LIBOR as determined in accordance with the relevant Cap agreement exceeds the rate (the "strike rate") agreed with the Cap Provider in respect of a particular Cap, the Cap

Provider will be required to make a payment equal to the difference between LIBOR (as so determined) and the strike rate calculated on the notional principal amount of the Cap for the relevant period.

It is expected that all the Caps will initially be made available to the Issuer by Morgan Guaranty Trust Company of New York. The Issuer will be required to obtain new Caps covering any Converted Mortgages which are Fixed Rate Mortgages. Such new Caps may be provided by the initial Cap Provider or by another bank or financial institution.

Each Cap Provider will, on the date on which it makes Caps available to the Issuer, have a rating for its long term or short term debt obligations sufficient to maintain the then ratings of the Notes unless that Cap is guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes.

### **Reinvestment of Income**

Cash in the Issuer's bank account must be invested in sterling denominated securities, bank accounts or other obligations of or rights against entities whose long term debt is rated Aaa by Moody's or whose short term debt is rated P-1 by Moody's or in such other securities, bank accounts or other rights as would not adversely affect the then current rating of the Class A Notes or, if there are no Class A Notes outstanding, the Mezzanine Notes and the acquisition of which would not prevent the Class A Notes, if they would otherwise do so, from carrying a Risk Asset Weighting of 50% (or such percentage as may for the time being be generally applicable to mortgage backed securities or, if there is more than one Risk Asset Weighting percentage stipulated for mortgage backed securities, the lower thereof) under the Capital Adequacy Rules for Authorised Institutions for the time being applied by the Bank of England or under the Capital Adequacy Rules for building societies for the time being applied by the Building Societies Commission. No investment shall be made unless such investment is an asset which a building society (as defined in The Building Societies Act 1986) has power to acquire by virtue either of Part II of Schedule I to The Building Societies (Commercial Assets and Services) Order 1988 (S.I. 1988 No. 1141) or of regulations in force under section 21 of the Building Societies Act 1986 (being, as at the date hereof, The Building Societies (Liquid Asset) Regulations 1991 (S.I. 1991 No. 2580) as amended by the Building Societies (Liquid Asset) (Amendment) Regulations 1992 (S.I. 1992 No. 2930) and by the Building Societies (Liquid Asset) (Amendment) Regulations 1995 (S.I. 1995 No. 550)). The Issuer may, at its option, deposit cash in a bank account (the relevant bank being the "GIC Provider") pursuant to a guaranteed investment contract (a "Guaranteed Investment Contract") (see "Mortgage Administration – Reinvestment of Income" below).

### **Global Notes**

Each class of the Notes will be represented initially by a temporary global note in bearer form (each a "Temporary Global Note"), without coupons or talons, which will be deposited on the Closing Date with Morgan Guaranty Trust Company of New York, London office, as common depository (the "Common Depository") for Euroclear and Cedel Bank. Interests in the Temporary Global Note relating to that class will be exchangeable for interests in a permanent global note relating to that class in bearer form (each a "Permanent Global Note"), without coupons or talons, 40 days after the Closing Date provided certification of non-U.S. beneficial ownership by the Noteholders of the relevant class has been received. The Permanent Global Notes will also be deposited with the Common Depository. The Temporary Global Notes and the Permanent Global Notes are referred to together as the "Global Notes". Notes in definitive form will be issuable only in certain limited circumstances as more particularly described in "Description of the Class A Notes, the Global Class A Notes and the Security – Form of Global Class A



Notes” and in “Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security – Form of Global Mezzanine Notes” below. Unless Notes in definitive form are so issued and for so long as the Global Notes remain in effect, Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear and Cedel Bank.

While either Global Note of a particular class is outstanding, payments on the Notes of that class represented by either of such Global Notes will be made against presentation of the relevant Global Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Noteholders of that class has been received by Euroclear or Cedel Bank. Each of the persons appearing from time to time in the records of Euroclear or of Cedel Bank as the holder of a Note of a particular class will be entitled to receive any payment so made in respect of that Note in accordance with the rules and procedures of Euroclear or, as the case may be, Cedel Bank. Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes of any class for so long as either of the Global Notes of that class are outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Note of the relevant class for the Permanent Global Note of that class, which date shall be no earlier than the Exchange Date (as defined in the relevant Temporary Global Note) or (ii) the first Interest Payment Date in relation to the Notes, in order to obtain any payment due on the Notes.

**Relationship of Class A  
Noteholders and Mezzanine  
Noteholders**

The trust deed constituting the Notes will contain provisions requiring the Trustee to have regard to the interests of both the Class A Noteholders and the Mezzanine Noteholders, as regards all of the powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in its opinion, there is a conflict between the interests of the Class A Noteholders and the Mezzanine Noteholders. The trust deed will also contain provisions limiting the powers of the Mezzanine Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, if such action or the effect of such Extraordinary Resolution would be materially prejudicial to the interests of the Class A Noteholders. The Mezzanine Noteholders will not be entitled to request or direct the Trustee to accelerate payment by the Issuer of the Mezzanine Notes on an Event of Default unless payment of the Class A Notes is also accelerated or there are no Class A Notes outstanding. Except in certain circumstances, the trust deed will contain no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding upon the Mezzanine Noteholders, irrespective of the effect thereof upon their interests.

**Fee Letter**

NHL has agreed to arrange the issue of the Class A Notes and the Mezzanine Notes on behalf of the Issuer. In particular, NHL has negotiated the terms of the issues of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Managers. HLDL will pay, on behalf of the Issuer, the combined management and underwriting commissions referred to under “Subscription and Sale” below and certain other expenses payable by the Issuer in connection with the issues of the Notes. The Issuer has agreed under a fee letter (the “Fee Letter”) that it will pay NHL an arrangement fee of £490,000 and that it will reimburse HLDL for these commissions and expenses, in each case, in quarterly instalments on or after seven days after each Interest Payment Date over four years from the Closing Date. Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR payable quarterly in arrear on each Interest Payment Date.

**Loan Stock**

The Notes will be issued simultaneously with the Convertible Cumulative Secured Subordinated Loan Stock 2030 of the Issuer (the “Loan Stock”) the terms and conditions of which will be set out in an instrument to be dated the Closing Date (the “Instrument”). The initial tranche of Loan Stock (which will be of up to £4,800,000) nominal amount will be subscribed for by NHL. The Loan Stock will bear interest at a rate of 4% per annum above LIBOR, payable with effect from the Closing Date, quarterly in arrear on each Interest Payment Date.

No payment in cash of principal in respect of, or purchase by the Issuer of, the Loan Stock will be made while any Note remains outstanding. The Loan Stock will be convertible into ordinary shares of the Issuer at any time at the option of the Issuer, and at any time when no Note is outstanding at the option of the Stockholder, at a conversion rate of one ordinary share for each £1 nominal amount of Loan Stock converted and the Loan Stock will automatically be converted as aforesaid if an Enforcement Notice is validly served. The Issuer may elect to defer the whole or any part of the interest due on the Loan Stock on any Interest Payment Date (without any interest accruing thereon) until the last Interest Payment Date in its then current financial period and may elect to satisfy its obligation to pay interest due and payable on the Loan Stock by the issue of additional Loan Stock credited as fully paid.

The Notes and the Loan Stock will share the same security, but the Loan Stock will be subordinated to the Notes in point of payment and the Notes will rank in priority to the Loan Stock in the event of the security being enforced. No offer of Loan Stock is made hereby.

**NHL Subordinated Loan Agreement**

NHL will make available to the Issuer on the Closing Date under a subordinated loan agreement (the “NHL Subordinated Loan Agreement”) a subordinated loan facility under which an amount will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund. Thereafter further drawings may be made, with the prior consent of NHL, by the Issuer for the purpose of establishing or increasing the Shortfall Fund. The Issuer may from time to time borrow further sums from NHL or other lenders (“Subordinated Lenders”) on the terms of the NHL Subordinated Loan Agreement.

## SPECIAL CONSIDERATIONS

*The following is a summary of certain aspects of the issues about which prospective Noteholders should be aware but it is not intended to be exhaustive and prospective Noteholders should read the detailed information set out elsewhere in this Offering Circular.*

**The Notes will be solely the obligations of the Issuer. The Notes will not be obligations or responsibilities of, or guaranteed by, NHL, HLDL, Holdings, JPMSL, the Managers, the Swap Counterparty, the Trustee, Barclays, the Common Depository or any company in the same group of companies as Holdings (other than the Issuer) or the Trustee or Barclays or any other person other than the Issuer. Furthermore, none of NHL, HLDL, Holdings, JPMSL, the Managers, the Swap Counterparty, the Trustee, Barclays, the Common Depository or any such company will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes.**

The ability of the Issuer to meet its obligations to pay principal of and interest on the Notes and its operating and administration expenses will be dependent on funds being received under (*inter alia*) the mortgages in the Mortgage Pool, the Swap Agreement, the Caps and any related guarantees, any Guaranteed Investment Contract, any permitted investments, the NHL Subordinated Loan Agreement and the insurances in which the Issuer has an interest.

Comprised in the mortgages included in the Provisional Mortgage Pool are mortgages having a current principal balance of £19,345,782 in respect of which payments due from borrowers were in arrears, as at 1st December 1995, by an amount in excess of one current monthly payment. Arrears of interest in respect of Arrears Mortgages will not be purchased at the Closing Date and any payments received in respect of those Mortgages after the Closing Date will be first applied towards those arrears and will be accounted for to NHL or HLDL (as the case may be).

Upon enforcement of the security for the Notes, the Trustee will have recourse only to the Mortgages and any other assets of the Issuer then in existence, including the First Loss Fund and the Reserve Fund. Other than as provided in the Mortgage Sale Agreement for breach of warranty and of other obligations of NHL and HLDL in relation to the Mortgages (referred to in "The Mortgages" below), the Issuer and the Trustee will have no recourse to either NHL or HLDL.

The terms on which the security for the Notes will be held will provide that, upon enforcement, certain payments (including all amounts payable to any receiver and the Trustee, any amounts payable to Barclays under the Substitute Administrator Agreement and certain fees, expenses, and commissions payable to the Administrator) will be made in priority to payments in respect of interest on and principal of the Notes, amounts payable on the Class A Notes will rank in priority to all amounts then owing to Mezzanine Noteholders and payments on the Notes will rank ahead of all amounts then owing to Stockholders, NHL and HLDL under, *inter alia*, the Loan Stock, the Mortgage Sale Agreement, the Fee Letter and the Services Letter (as defined in "The Issuer" below) and the NHL Subordinated Loan Agreement. In the event that the security for the Notes is enforced, no amounts will be paid to the Mezzanine Noteholders until all amounts owing to the Class A Noteholders have been paid in full.

There is some doubt as to the legal effectiveness of any charge over entitlements under the MIRAS Scheme (which is currently established under sections 369-379 of the Income and Corporation Taxes Act 1988). However, the Inland Revenue have indicated in respect of previous similar transactions that they are prepared to make payments under the MIRAS Scheme to bank accounts similar to the Transaction Account and they will be requested to operate this arrangement in the present case and to give the Trustee advance notice if they wish to change this arrangement.

The Directors of each of NHL and HLDL, HLDF, Homer (1) and NHL (3) Securities (each of which, other than NHL and HLDL, is defined below) consider the relevant company of which they are directors to be solvent and it is a condition to the closing of the issues of the Notes that they certify (i) that, in their opinion, such company is not unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 and would not become unable to do so within the meaning of that section in consequence of entering into the Relevant Documents (as defined in Condition 3(a)(1)(b) of the Class A Notes below) to which such company is a party and the performance of its obligations under such Relevant Documents and (ii) that, in their opinion, there is no reason to believe the foregoing state of affairs will not continue thereafter.

Touche Ross & Co. will conduct such a review of NHL's and HLDL's, HLDF's, Homer (1)'s and NHL (3) Securities' records as they consider necessary and will on the Closing Date confirm that such review has not disclosed any matters which would lead them to believe that the Directors of any such company were acting unreasonably in providing the certification referred to at (i) above.

If on any Interest Payment Date the Issuer has insufficient income to pay interest on the Class A Notes and amounts ranking in priority thereto, the Issuer may apply principal receipts from borrowers in the payment of such interest. In addition, the Issuer may receive an amount under a direct debit which subsequently has to be repaid to the bank making the payment if that bank is unable to recoup such amount itself from its customer's account. If the Issuer has insufficient revenue funds to make the repayment, such an amount may be repaid by applying principal amounts received. Either of these events may lead to the consequences set out in the following paragraph.

If, upon default by borrowers and the exercise by the Issuer or the Administrator of all available remedies under the Mortgages and the related collateral security and after all available claims under any relevant insurance or assurance policy have been made and settled, the Issuer does not receive the full amount due from those borrowers, or if principal receipts from borrowers are applied in paying interest on the Class A Notes on an Interest Payment Date or in refunding reclaimed direct debit payments (as set out in the preceding paragraph) and, in either case, if otherwise there would be insufficient funds available for these purposes, then the following consequences may ensue: first, the Issuer's interest and other net income may not be sufficient, after making the payments to be made in priority thereto, to pay, in full or at all, interest due on the Mezzanine Notes; secondly, the Mezzanine Notes will be redeemed at less than their face value unless prior to their final maturity date the Issuer's interest and other net income is sufficient, after making other payments to be made in priority thereto, to reduce to nil the debit provision in the Principal Deficiency Ledger against such deficits suffered in recovering sums due from borrowers under the Mortgages or which result from the application of principal receipts in paying interest on the Class A Notes or in refunding reclaimed direct debit payments; thirdly, if the aggregate provision against such deficits (even to the extent reduced as aforesaid), should exceed the aggregate face value of the Mezzanine Notes, Class A Noteholders may receive by way of principal repayment less than the face value of their Class A Notes; and, fourthly, the Issuer may be unable to pay, in full or at all, interest due on the Class A Notes.

The Administrator will, on behalf of the Issuer and the Trustee, set the rates of interest applicable to the Mortgages (where relevant). The Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages and the rate of interest payable on the Reserve Fund is not less than 1.50% until January 2004 and 2.00% thereafter above LIBOR applicable to the Notes at that time. The Administrator may set a lower average mortgage interest rate if and to the extent that the resultant shortfall can be provided for out of an available credit balance in any Shortfall Fund.

In limited circumstances the Trustee or any substitute administrator appointed by the Trustee or Barclays when acting in its capacity as administrator of last resort will be entitled to set the rates of interest applicable to the Mortgages. These circumstances include a breach by the Administrator of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders. In such circumstances, the Trustee may terminate the Administrator's authority to set the rates of interest applicable to the Mortgages and/or terminate the appointment of the Administrator.

In view of these arrangements for setting Mortgage rates and the First Loss and Shortfall Funds, the Terms and Conditions of the Class A Notes and the Mezzanine Notes will provide that a Trustee's certificate, to the effect that the Issuer had sufficient funds available for the purpose, will be necessary to constitute an event of default if one or more interest payments on the Class A Notes and the Mezzanine Notes is or are missed or not paid in full (see "Description of the Class A Notes, the Global Class A Notes and the Security – Events of Default" and "Description of the Mezzanine Notes and the Global Mezzanine Notes and the Security – Events of Default" below).

Whilst certain statements made in the judgment in the case of *Re Charge Card Services Limited* may seem to cast doubt on the effectiveness of any assignment or charge of a type similar to that which is to be created by the Issuer in favour of the Trustee over the Issuer's rights under agreements entered into with Morgan Guaranty Trust Company of New York, London office, the circumstances of the present transaction would appear to differ in a material respect from the circumstances in that case.

NHL (in respect of Mortgages sold by it) and HLDL (in respect of Mortgages sold by it) has warranted to the Issuer and the Trustee in the Mortgage Sale Agreement in respect of the Mortgage Pool, *inter alia*, that, prior to it making the initial advance to a borrower under a Mortgage, NHL or HLDL carried out, save in respect of certain of the Excluded Mortgages (having an aggregate principal amount outstanding at the Closing Date of not more than £6,770,949) and Local Authority Mortgages (having an aggregate principal amount outstanding at the Closing Date of not more than £267,393), all investigations, searches and other actions as would a reasonably prudent lender and nothing which would cause such a lender to decline to proceed with the advance on the proposed terms was disclosed. Except as described under "The Mortgages – Acquisition of Mortgages" below, neither the Issuer nor the Trustee has undertaken or will undertake any such investigations, searches or other actions and each will rely instead on the warranties given by NHL and HLDL in respect of the Mortgages in the Mortgage Sale Agreement. The sole remedy against NHL and

HLDL of each of the Issuer and the Trustee in respect of breach of warranty shall be to require NHL or HLDL (as the case may be) to repurchase any relevant Mortgage provided that this shall not limit any other remedies available to the Issuer and/or the Trustee if NHL or HLDL fails to repurchase a Mortgage when obliged to do so.

The ability of the Issuer to redeem all the Notes in full, including after the occurrence of an event of default in relation to the Notes, while any of the Mortgages is still outstanding may depend upon whether the Mortgages can be realised to obtain an amount sufficient to redeem the Notes. There can be no assurance that the Mortgages and their related security will realise such an amount. Neither the Issuer nor the Trustee may be able to sell the Mortgages on appropriate terms should either of them be required to do so.

Like other U.K. mortgage lenders, NHL has experienced delays in achieving successful settlement of claims made by it under mortgage guarantee indemnity insurance policies relating to mortgages originated by it and there can be no guarantee that such delays will not affect those NHL Mortgages in respect of which mortgage guarantee indemnity insurance has been taken out. As with NHL, there can be no guarantee that claim delays could not affect those HLDL Mortgages in respect of which mortgage indemnity insurance has been taken out. Consequently, in order to expedite the settlement of claims under the mortgage guarantee indemnity insurance policies or policy relating to the Mortgages, the Administrator may make arrangements with insurers pursuant to which the insurers shall be entitled to settle disputed claims under the mortgage guarantee indemnity insurance policies relating to the Mortgages at a discount to the face amount of such claims provided that payment of the settlement amount is made within an agreed period from the date of each claim. These arrangements are intended to have the effect of accelerating receipt from the insurers of the proceeds of claims made under the relevant mortgage guarantee indemnity insurance policies or policy and may entitle the insurers to discount claims.

In the event of the termination of the appointment of the Administrator by reason of default by the Administrator or its insolvency it would be necessary for the Trustee to appoint a substitute administrator. There is no guarantee that an administrator could be found who would be willing to administer the Mortgages and the Issuer's business on the terms of the Administration Agreement and the Deed of Charge (even though they provide for the fees payable to a substitute administrator to be consistent with those commonly charged at that time for the provision of mortgage administration services), in which case, and pursuant to the Substitute Administrator Agreement, Barclays would be required to assume responsibility for the provision of the administration services required to be performed under the Administration Agreement for the Mortgages and the Issuer's business. The ability of a substitute administrator or Barclays fully to perform such services would depend on the information and records then available to it and it is possible that there could be an interruption in the administration during the course of the transition. Such person would not become bound by NHL's obligations under the NHL Subordinated Loan Agreement or by NHL's or HLDL's obligations under the Mortgage Sale Agreement (including the warranties given therein). The fees and expenses of Barclays or a substitute administrator performing services in this way would be payable under paragraphs (i) and (ii) respectively of "Summary – Priority of Payments" above.

Third party rights (for example, rights of occupation or rights of a subsequent mortgagee or security holder) may arise subsequent to the completion of the initial advance to a borrower. Neither NHL nor HLDL nor the Issuer nor the Trustee has undertaken or will undertake any investigation or search of any kind prior to the making of a Mandatory Further Advance to a borrower or, in some circumstances, the making of a Discretionary Further Advance.

At the time NHL or HLDL sells to the Issuer Mortgages over registered land, NHL and HLDL may not possess all the title numbers of the individual Mortgages. NHL and HLDL have each given an undertaking to use all reasonable efforts to obtain the title numbers as soon as practicable and in any event within six months of the date of sale. If the Trustee were required to enforce the security, there might be some delay in its being able to do so since it would first have to register its interest at H.M. Land Registry and to do so it would first have to obtain any outstanding title numbers.

Certain of the Mortgages are to be acquired by NHL on the Closing Date from NHL's affiliates, (Homer Finance (No 1) PLC ("Homer (1)"), NHL (3) Securities PLC ("NHL (3) Securities")) and Homeloans Direct Funding PLC ("HLDF") (see "Acquisition of Mortgages" below). These Mortgages were originated by NHL and were previously assigned to Homer (1), NHL (3) Securities and HLDF. Each of Homer (1) and NHL (3) Securities has sub-charged its interest in the Mortgages assigned to them in favour of Morgan Guaranty Trust Company of New York. HLDF has sub-charged its interest in the Mortgages assigned to it in favour of Abbey National Treasury Services plc. On the Closing Date, each of these sub-charges is expected to be released to the extent that they relate to the Mortgages (and related security) to be acquired by NHL and the Mortgages re-assigned and re-transferred to NHL. NHL has charged its interest in the Mortgages currently owned by it to Morgan Guaranty Trust Company of New York and NHL's interests in the Mortgages acquired by it on the Closing Date will, on acquisition, become subject to such charge to

Morgan Guaranty Trust Company of New York. Such sub-charge to the extent that it relates to the Mortgages (and related security) is expected to be released on the Closing Date. NHL will immediately assign its interest in the Mortgages to be purchased by the Issuer on the Closing Date to the Issuer. Certain of the Mortgages are to be acquired by Homeloans Direct Limited (“HLDL”) on the Closing Date from HLDL’s subsidiary, HLDF (see “Acquisition of Mortgages” below). All of these Mortgages were originated by HLDL and were previously assigned to HLDF. HLDF has sub-charged its interest in the Mortgages assigned to it in favour of Abbey National Treasury Services plc. On the Closing Date the sub-charges are expected to be released to the extent that they relate to the Mortgages (and related security) to be acquired by HLDL and the Mortgages re-assigned and re-transferred to HLDL. HLDL will immediately assign its interest in the Mortgages purchased by the Issuer on the Closing Date to the Issuer. Notice of each such assignment will be given to the relevant borrowers. Each of NHL and HLDL will include in its warranties a warranty as to the validity of the unencumbered title transferred by it to the Issuer.

On the basis of criteria generally applied by mortgage lenders in the United Kingdom, the amount payable on maturity (excluding any terminal bonus) of the relevant endowment life assurance policy or policies, which were originally collateral security for repayment by each relevant borrower of his endowment Mortgage in the Mortgage Pool on the expiry of the term thereof, was (when the Mortgage was originated) expected, on prudent assumptions, to be not less than the principal amount advanced pursuant to the relevant Mortgage (excluding certain further advances, fees, costs and expenses). Prior to the maturity of the endowment life assurance policy or policies, there is no expectation that, other than on the death of the life assured, the amount so payable would be equal to or greater than this amount. The amount payable under the policy is particularly uncertain where the borrower has failed to make all payments thereon when due.

In the case of a pension-linked Mortgage in the Mortgage Pool, the lump sum available to a borrower on maturity of the relevant pension policy was (when the Mortgage was originated) expected, on prudent assumptions, to be not less than the amount advanced pursuant to the relevant Mortgage (excluding certain further advances, fees, costs and expenses). However, on maturity of the pension policy a borrower may elect not to take any amount of his entitlement by way of lump sum payment, and neither the Issuer nor the Trustee may take any security over a pension policy. The pension provider will not necessarily notify the mortgagee if a borrower fails to pay premium(s) due in respect of a pension policy.

In the case of a Repayment Mortgage in the Mortgage Pool or an Interest-only Mortgage in the Mortgage Pool, the borrower is not generally required to take out a life assurance policy or pension policy or other form of security for repayment of the Mortgage (for example in the event of his death during the mortgage term).

Borrowers may not have been making payment in full or on time of the premiums due on any relevant life assurance or pension policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder. In certain cases, the policy may have been surrendered but not necessarily in return for a cash payment and any cash received by the borrower may not have been applied in paying amounts due under the borrower’s Mortgage.

The Administrator may, on behalf of the Issuer, and as part of its arrears and default procedures, convert a Mortgage in the Mortgage Pool from one type of Mortgage to another provided that certain criteria will be met, as more particularly described in “Mortgage Administration – Conversion of Mortgages” below.

The Trust Deed and Deed of Charge contain provisions requiring the Trustee to have regard to the interests of both the Class A Noteholders and the Mezzanine Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the Mezzanine Noteholders and other persons entitled to the benefit of the Security (as defined in the Trust Deed).

The ability of the Issuer to pay interest due or overdue on the Notes and to meet certain other obligations is dependent upon the Administrator having the ability to vary the rates of interest applicable to the Mortgages. However, in respect of Fixed Rate Mortgages, the Administrator is unable to vary the rate of interest during the fixed rate period set out in the relevant Mortgage Conditions; in respect of Local Authority Mortgages, the interest rate is set at 0.25% below the standard national rate declared by the Secretary of State pursuant to section 110 of the Housing Act 1980; and in respect of Blue Chip Mortgages, LIBOR-Linked Mortgages and Staff Mortgages, the interest rate is set at a fixed margin over three-month LIBOR. As a result, the Issuer may be exposed to the risk of an adverse interest differential between the rate of interest receivable in respect of the Fixed Rate Mortgages, Local Authority Mortgages, Blue Chip Mortgages, LIBOR-Linked Mortgages and Staff Mortgages, on the one hand, and the rate of interest payable on the Notes on the other hand. In order to hedge the risk associated with Fixed Rate Mortgages the Issuer will enter into the Swap Agreement and Caps.

Under the terms of the Mortgage Conditions applicable to Stabilised Rate Mortgages contained in the Mortgage Pool, Mandatory Further Advances are required to be made to borrowers. The Issuer expects to fund such Mandatory Further Advances for any given period from the moneys referred to in paragraph (a) of the definition of “Available Redemption Funds” (see “Description of the Class A Notes, the Global Class A Notes and the Security – Redemption and Purchase” and “Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security – Redemption and Purchase” below). To the extent that the Issuer has not received sufficient amounts of principal to meet the amounts of Mandatory Further Advances it is then required to make, the Issuer may draw on the Reserve Fund. The Issuer will not be permitted to convert Mortgages into Mortgages requiring Mandatory Further Advances if, at the time of the relevant purchase or conversion, there are not sufficient funds in the Reserve Fund to meet the maximum amount of Mandatory Further Advances that the Issuer may be required to make thereafter on all Mortgages owned by the Issuer after such purchase or conversion.

Legal title to the Mortgages in the Mortgage Pool over registered land in England and Wales has, since origination, remained, and will remain, with NHL or HLDL (other than in the case of certain Local Authority Mortgages, where legal title has been transferred to, and will remain with, NHL and except in relation to certain Mortgages legal title to which is vested in NHL Second Funding Corporation PLC (“NHL Second Funding”) and NHL Third Funding Corporation PLC (“NHL Third Funding”)) and the sale by NHL and HLDL to the Issuer of Mortgages over such land (or titles requiring registration at H.M. Land Registry) will take effect in equity only since, save in the circumstances set out below, no application will be made to H.M. Land Registry to register the Issuer as legal owner of such Mortgages. Neither the Issuer nor the Trustee will apply to H.M. Land Registry or the Central Land Charges Registry to register their interests in such Mortgages or give notice to any insurer of the assignment to the Issuer of the charge over (or of the interests acquired by the Issuer in) any life policies except in the limited circumstances referred to below.

As a consequence of neither the Issuer nor the Trustee obtaining legal title to certain of the Mortgages by not registering their respective interests at H.M. Land Registry (where applicable), a bona fide purchaser from NHL, HLDL, NHL Second Funding or NHL Third Funding for value of any of such Mortgages without notice of any of the interests of the Issuer or the Trustee (and certain similar third parties) might obtain a good title free of any such interest. For so long as neither the Issuer nor the Trustee have obtained legal title, they must join NHL, HLDL, NHL Second Funding or NHL Third Funding (as the case may be) as a party to any legal proceedings which they may wish to take against any borrower or in relation to the enforcement of any Mortgage. In this regard, each of NHL, HLDL, NHL Second Funding and NHL Third Funding will undertake for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required by the Issuer or the Trustee in relation to, any legal proceedings in respect of the Mortgages. Further, the rights of the Issuer and the Trustee may be or become subject to equities (for example, rights of set-off as between the relevant borrowers or insurance companies and NHL, HLDL, NHL Second Funding or NHL Third Funding). However, the risk of third party claims obtaining priority to the interests of the Issuer or the Trustee would be likely to be limited to circumstances arising from a breach by NHL, HLDL, NHL Second Funding or NHL Third Funding of its contractual obligations or fraud, negligence or mistake on the part of NHL, HLDL, NHL Second Funding or NHL Third Funding or the Issuer or their respective personnel or agents. Up to £1,190,098 of NHL Mortgages in the Provisional Mortgage Pool have been advanced to borrowers who are employees of NHL who may have or obtain rights to set off claims against NHL against moneys due under such Mortgages.

Upon the occurrence of any of (i) the valid service of an Enforcement Notice or a Protection Notice (each as defined in the Deed of Charge) or (ii) the termination of NHL's role as administrator under the Administration Agreement or (iii) NHL or HLDL being required, by an order of a court of competent jurisdiction, or by a regulatory authority of which NHL or HLDL (as the case may be) is a member or with whose instructions it is customary for NHL or HLDL (as the case may be) to comply, to perfect legal title to the Mortgages or (iv) any change occurring in the law after 14th December 1995 rendering it necessary by law to take any of such actions or (v) the security under the Deed of Charge or any material part of such security being in jeopardy and the Trustee deciding to take such action to reduce materially such jeopardy, the Issuer and the Trustee will have the right to perfect legal title to the Mortgages and Life Policies (as defined in “Insurance Coverage – Endowment Life Policies and Term Life Policies” below) by effecting the necessary registrations and notifications. The right of the Issuer and the Trustee to exercise the powers of the registered proprietor of the Mortgages pending registration will be secured by an irrevocable power of attorney granted by each of NHL, HLDL, NHL Second Funding and NHL Third Funding in favour of the Issuer and the Trustee.

## DESCRIPTION OF THE CLASS A NOTES, THE GLOBAL CLASS A NOTES AND THE SECURITY

The issue of the Class A Notes is and will be authorised by resolution of the Board of Directors of the Issuer passed on 14th and 18th December 1995. The Class A Notes will be constituted by a trust deed (the "Trust Deed") expected to be dated 18th December 1995 between the Issuer and Morgan Guaranty Trust Company of New York, acting through its London office, (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class A Notes (the "Class A Noteholders") and the holders for the time being of the Mezzanine Notes (the "Mezzanine Noteholders"). The proceeds of the issues of the Class A Notes and the Mezzanine Notes will be applied by the Issuer towards payment to NHL and HLDL of the purchase price for the Mortgages to be purchased under a mortgage sale agreement dated 14th December 1995 (the "Mortgage Sale Agreement") and in establishing the Reserve Fund.

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, NHL, HLDL, the Administrator, Barclays and the Swap Counterparty (the "Deed of Charge"). The Trust Deed will include the form of the Global Class A Notes and the definitive Class A Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the "Agency Agreement") expected to be dated 18th December 1995 between the Issuer, the Trustee and Morgan Guaranty Trust Company of New York as principal paying agent (the "Principal Paying Agent", which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the "Reference Agent", which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agents, "the Paying Agents", which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class A Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class A Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof 60 Victoria Embankment, London EC4Y 0JP, and at the specified offices for the time being of the Paying Agents.

Class A Notes and Coupons (as defined below) will bear the following legend: "Any United States Person (as defined in the Internal Revenue Code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code". The sections referred to in the legend provide that a United States Person (as defined in the Internal Revenue Code) will not, with certain exceptions, be permitted to deduct any loss, and will not be eligible for favourable capital gains treatment with respect to any gain, realised on a sale, exchange or redemption of a Class A Note or Coupon.

### **Global Class A Notes**

The Class A Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class A Note in bearer form, without coupons or talons, in the principal amount of £112,500,000. The Temporary Global Class A Note will be deposited on behalf of the subscribers of the Class A Notes with Morgan Guaranty Trust Company of New York, London office, as common depositary for Euroclear and Cedel Bank (the "Common Depositary") on the Closing Date. Upon deposit of the Temporary Global Class A Note, Euroclear or Cedel Bank will credit each subscriber of Class A Notes with the principal amount of Class A Notes for which it has subscribed and paid. Interests in the Temporary Global Class A Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class A Noteholders has been received) for interests in the Permanent Global Class A Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class A Note (the expression "Global Class A Notes" and "Global Class A Note" meaning, respectively, (i) both of the Temporary Global Class A Note and the Permanent Global Class A Note or (ii) either of the Temporary Global Class A Note or Permanent Global Class A Note, as the context may require). On the exchange of the Temporary Global Class A Note for the Permanent Global Class A Note, the Permanent Global Class A Note will also be deposited with the Common Depositary. The Global Class A Notes will be transferable by delivery. The Permanent Global Class A Note will be exchangeable for definitive Class A Notes in bearer form in certain circumstances described below. Interest and principal on each Global Class A Note will be payable against presentation of that Global Class A Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Class A Noteholders has been received by Euroclear or Cedel Bank. Each of



the persons appearing from time to time in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear, or of Cedel Bank, as the holder of a Class A Note will be entitled to receive any payment so made in respect of that Class A Note in accordance with the respective rules and procedures of Euroclear or, as the case may be, Cedel Bank. Such persons shall have no claim directly against the Issuer in respect of payments due on the Class A Notes, which must be made by the holder of the relevant Global Class A Note, for so long as such Global Class A Note is outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Class A Note for the Permanent Global Class A Note, which date shall be no earlier than the Exchange Date (as defined in the Temporary Global Class A Note) and (ii) the first Interest Payment Date, in order to obtain any payment due on the Class A Notes.

For so long as the Class A Notes are represented by a Global Class A Note, the Class A Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Cedel Bank.

For so long as the Class A Notes are represented by a Global Class A Note, each person who is for the time being shown in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear or of Cedel Bank as the holder of a particular principal amount of Class A Notes will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Class A Notes and the expression "Class A Noteholder" shall be construed accordingly, but without prejudice to the entitlement of the bearer of the Global Class A Note to be paid principal and interest thereon in accordance with its terms.

Principal and interest on a Global Class A Note will be payable against presentation of such Global Class A Note at the specified office of the Principal Paying Agent or, at the option of the holder, at any specified office of any Paying Agent provided that no payment of interest on a Global Class A Note may be made by, or upon presentation of such Global Class A Note to, any Paying Agent in the United States of America. A record of each payment made on a Global Class A Note, distinguishing between any payment of principal and payment of interest, will be endorsed on such Global Class A Note by the Paying Agent to which such Global Class A Note was presented for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made.

If (i) the principal amount of the Class A Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Cedel Bank is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 14th December 1995, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class A Notes which would not be required were the Class A Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class A Notes represented by the Permanent Global Class A Note in exchange for the whole outstanding interest in the Permanent Global Class A Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

### **Security**

The security for the Class A Notes will be created pursuant to, and on the terms set out in, the Deed of Charge, which will create in favour of the Trustee on trust for (*inter alios*) the Class A Noteholders:

- (1) a sub-charge over the Mortgages purchased by the Issuer from NHL and HLDL under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment of the benefit of the guarantee;
- (2) an assignment of the Issuer's interest in the security created over the life assurance policies as collateral security for the obligations of borrowers under, and, where applicable, guarantors with respect to, certain Mortgages;
- (3) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (4) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the NHL Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust (as defined in "The NHL VAT Group" below), under the NHL Collection Account Declaration of Trust and the HLDL Collection Account Declaration of Trust (each as defined in "Mortgage Administration – Payments from Borrowers" below),

under the Swap Agreement, under the Instrument (as defined in “The Issuer”), under any Caps and under any Guaranteed Investment Contract;

(5) an assignment of the Issuer’s rights to all moneys standing to the credit of the Issuer’s bank accounts at NatWest (the “Transaction Account” and the “Escrow Account”), and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);

(6) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors);

(7) as far as possible, a charge over the Issuer’s entitlement to receive payments from the Inland Revenue under the Mortgage Interest Relief at Source Scheme (the “MIRAS Scheme”); and

(8) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class A Notes, are referred to as the “Security”. The Security will also stand as security for any amounts payable by the Issuer to the Mezzanine Noteholders (as defined in Condition 1 below) and to any Receiver, the Trustee, Barclays, the Administrator, the Stockholder, any GIC Provider, HLDL, NHL, any Subordinated Lender and the Swap Counterparty under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the NHL Subordinated Loan Agreement, the Instrument, the Swap Agreement and any Guaranteed Investment Contract. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After service of an Enforcement Notice, amounts payable to any Receiver and the Trustee, amounts payable to Barclays and fees, third party enforcement expenses and commissions payable to the Administrator will rank in priority to payments on the Class A Notes.

### **Terms and Conditions**

If Class A Notes in definitive bearer form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Class A Note would be as set out below (the “Class A Conditions”). While the Class A Notes remain in global form, the same terms and conditions govern them, except to the extent that they are appropriate only to Class A Notes in definitive form.

#### **1. Form, Denomination and Title**

The £112,500,000 Class A Mortgage Backed Floating Rate Notes Due 2030 of the Issuer (the “Class A Notes”), which are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons (“Interest Coupons”) and principal coupons (“Principal Coupons”) (severally or together “Coupons”) and talons (“Talons”) attached. Title to the Class A Notes, the Coupons and the Talons shall pass by delivery.

The holder of each Coupon (each a “Couponholder”) and each Talon (whether or not the Coupon or the Talon is attached to a Class A Note) in his capacity as such shall be subject to and bound by all the provisions contained in the relevant Class A Note.

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents (as defined in a trust deed (the “Trust Deed”) dated 18th December 1995 between the Issuer and Morgan Guaranty Trust Company of New York, acting through its London office (the “Trustee”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the time being of the holders of the Class A Notes (the “Class A Noteholders”) and the holders of the Mezzanine Notes (as defined below) (the “Mezzanine Noteholders”)) may treat the holder of any Class A Note, Coupon or Talon as the absolute owner thereof (whether or not such Class A Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

#### **2. Status and Relationship between the Class A Notes and the Mezzanine Notes**

The Class A Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “Deed of Charge”) dated 18th December 1995 between the Issuer, the Trustee, The National Home Loans Corporation plc, Homeloans Direct Limited, Barclays Bank PLC and Morgan Guaranty Trust Company of New York as Swap Counterparty) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

The £10,000,000 Mezzanine Mortgage Backed Floating Rate Notes Due 2030 of the Issuer (the “Mezzanine Notes”) are constituted by the Trust Deed and are secured by the same security as secures the Class A

Notes but the Class A Notes will rank in priority to the Mezzanine Notes in the event of the security being enforced. The Trust Deed and Deed of Charge contain provisions requiring the Trustee to have regard to the interests of both the Class A Noteholders and the Mezzanine Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Class A Noteholders and the Mezzanine Noteholders and other persons entitled to the benefit of the Security (as defined in the Trust Deed).

### 3. Covenants of the Issuer

(a) So long as any of the Class A Notes or the Mezzanine Notes remains outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:

(1) carry on any business other than as described in the Offering Circular dated 14th December 1995 relating to the issues of the Class A Notes and the Mezzanine Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:

(a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances and making purchases of Class A Notes prior to the occurrence of the Determination Event;

(b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class A Notes, the Coupons and Talons, the Mezzanine Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreement relating to the Class A Notes, the subscription agreement relating to the Mezzanine Notes and the other agreements relating to the issue of the Class A Notes and the Mezzanine Notes (or any of them), the Agency Agreement, the Trust Deed, the Loan Stock and the Instrument, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the NHL Subordinated Loan Agreement, the Transfers, the Mortgages, the Charges, the Deed of Charge, the NHL Collection Account Declaration of Trust, the HLDL Collection Account Declaration of Trust, the Swap Agreement, any Caps, any Guaranteed Investment Contract, the Assignment of Charges, the Deed of Assignment, the VAT Declaration of Trust, the Services Letter, the Assignment of Insurances and the Insurance Contracts and the other insurances in which the Issuer at any time has an interest and all other agreements and documents comprised in the security for the Class A Notes and the Mezzanine Notes (all as defined either in the Trust Deed or in the Mortgage Sale Agreement) (together the "Relevant Documents");

(c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, *inter alia*, to make claims, payments and surrenders in respect of certain tax reliefs;

(d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents; and

(e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;

(2) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding for the avoidance of doubt, in particular, indebtedness under the Deed of Charge, the Fee Letter, the VAT Declaration of Trust and indebtedness incurred on the issue of Loan Stock and excluding any borrowing in accordance with the provisions of the NHL Subordinated Loan Agreement;

(3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever over any of its assets, or sell or otherwise dispose of any of the Security;

(4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:

(a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of

principal and interest on the Class A Notes and the Mezzanine Notes and the performance and observance of every covenant in the Trust Deed and in these Class A Conditions on the part of the Issuer to be performed or observed;

(b) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;

(c) the Trustee is satisfied that the interests of the Class A Noteholders and the Mezzanine Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;

(d) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and

(e) the then current ratings of the Class A Notes and the Mezzanine Notes are not adversely affected;

(5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;

(6) in a manner which adversely affects the then current rating of the Class A Notes or the Mezzanine Notes, have any employees or premises or have any subsidiary; or

(7) have an interest in any bank account, other than the Transaction Account and the Escrow Account or the VAT Account (as defined in the VAT Declaration of Trust), unless such account or interest is charged to the Trustee on terms acceptable to it.

(b) So long as any of the Class A Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the "Administrator"). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England and Wales. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, Barclays Bank PLC ("Barclays") will act as administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the NHL Subordinated Loan Agreement or the Mortgage Sale Agreement.

#### **4. Interest**

##### *(a) Interest Payment Dates*

Each Class A Note bears interest on its Principal Amount Outstanding (as defined in Class A Condition 5(b)) from and including 18th December 1995 or such later date as may be agreed between the Issuer and the Managers for the issue of the Class A Notes (the "Closing Date"). Provided certification of non-U.S. beneficial ownership has been received with respect to Class A Notes, interest in respect of the Class A Notes is payable quarterly in arrear on the last Business Day falling in April 1996 and, thereafter, on the last Business Day falling in July, October, January and April in each year (each, including the last Business Day falling in April 1996 an "Interest Payment Date"). To the extent that the funds available to the Issuer to pay interest on the Class A Notes on an Interest Payment Date are insufficient to pay the full amount of such interest, the shortfall ("Accrued Interest") will be borne by each Class A Note in a proportion equal to the proportion that the Principal Amount Outstanding of that Class A Note bears to the aggregate Principal Amount Outstanding of the Class A Notes (in each case as determined on the Interest Payment Date on which such Accrued Interest arises). As used in these Class A Conditions except Class A Condition 6, "Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an "Interest Period". Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the last Business Day falling in April 1996 in respect of the period from (and including) the Closing Date to (but excluding) the last Business Day falling in April 1996.

Interest shall cease to accrue on any part of the Principal Amount Outstanding of a Class A Note as from (and including) the due date for redemption of such part unless, upon due presentation of the relevant

Principal Coupon, payment of principal due is improperly withheld or refused, whereupon interest shall continue to accrue on such principal at the rate from time to time applicable to the Class A Notes until the moneys in respect thereof have been received by the Trustee or the Principal Paying Agent (as defined in the Trust Deed) and notice to that effect is given in accordance with Class A Condition 12.

*(b) Coupons and Talons*

On issue, Coupons and Talons applicable to Class A Notes in definitive form are attached to the Class A Notes. A Talon may be exchanged for further Coupons and, if applicable, a further Talon on or after the Interest Payment Date for the final Coupon on the relevant Coupon sheet by surrendering such Talon at the specified office of any Paying Agent. Interest payments on the Class A Notes will be made against presentation and surrender of the appropriate Coupons in accordance with Class A Condition 6, except as provided therein.

*(c) Rate of Interest*

The rate of interest applicable from time to time to the Class A Notes (the "Rate of Interest") will be determined by Morgan Guaranty Trust Company of New York acting as reference agent (the "Reference Agent", which expression shall include its successors as Reference Agent under the Agency Agreement) on the basis of the following provisions:

(i) On the Closing Date (an "Interest Determination Date") in respect of the first Interest Period, the Reference Agent will determine the interest rate on the linear interpolation between sterling deposits for a period of three months and sterling deposits for a period of six months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each an "Interest Determination Date"), the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the Closing Date and the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and a margin of 0.18% per annum up to and including the Interest Period ending in January 2004 and thereafter 0.60% per annum.

(ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds Bank Plc, Midland Bank plc and National Westminster Bank PLC or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the "Reference Banks") to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits (or for three-month and six-month sterling deposits, in respect of the first Interest Period) of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.

(iii) There shall be no maximum or minimum Rate of Interest.

*(d) Determination of Rate of Interest and Calculation of Interest Payments*

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable on, a Class A Note (an "Interest Payment") for the relevant Interest Period. The Interest Payment

for a Class A Note shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of a Class A Note taking into account any payment of principal due on such Interest Determination Date, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

*(e) Publication of Rate of Interest and Interest Payments*

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to the Class A Notes for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as the Class A Notes are listed on the Official List of the London Stock Exchange Limited (the "London Stock Exchange"), the London Stock Exchange, and will cause the same to be published in accordance with Class A Condition 12 on or as soon as possible after the date of commencement of the relevant Interest Period. The Interest Payment and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a shortening of the Interest Period.

*(f) Determination or Calculation by Trustee*

If the Reference Agent at any time for any reason does not determine the Rate of Interest or calculate an Interest Payment in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in paragraph (c) above, but subject to the terms of the Trust Deed), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Payment in accordance with paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

*(g) Reference Banks and Reference Agent*

The Issuer will procure that, so long as any of the Class A Notes remains outstanding, there will at all times be four Reference Banks and a Reference Agent. The Issuer reserves the right at any time to terminate the appointment of the Reference Agent or of any Reference Bank. Notice of any such termination will be given to Class A Noteholders. If any person shall be unable or unwilling to continue to act as a Reference Bank or the Reference Agent (as the case may be), or if the appointment of any Reference Bank or the Reference Agent shall be terminated, the Issuer will, with the approval of the Trustee, appoint a successor Reference Bank or Reference Agent (as the case may be) to act as such in its place, provided that neither the resignation nor removal of the Reference Agent shall take effect until a successor approved by the Trustee has been appointed.

## **5. Redemption and Purchase**

*(a) Mandatory Redemption in Part from Available Redemption Funds: Apportionment of Available Redemption Funds Between the Class A Notes and the Mezzanine Notes*

The Class A Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Principal Determination Date (as defined below) relating thereto there are any Available Redemption Funds (as defined below). The principal amount so redeemable in respect of each Class A Note, prior to the service of an Enforcement Notice, (each a "Principal Payment") on any Interest Payment Date shall be the amount of the Class A Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date divided by the number of Class A Notes then outstanding (as defined in the Trust Deed) (rounded down to the nearest pound sterling); provided always that no Principal Payment may exceed the Principal Amount Outstanding of a Class A Note.

The Principal Determination Date relating to an Interest Payment Date means the ninth day or, if earlier, the fifth Business Day prior to such Interest Payment Date.

"Available Redemption Funds" on any Principal Determination Date means:

(A) the aggregate of:

(i) all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents but excluding any such principal which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer) during the period from (and including) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (but excluding) the Principal Determination Date in question (the "relevant Collection Period");

(ii) any final releases (as defined in the Administration Agreement) made or to be made to the Issuer from the Reserve Fund in the relevant Collection Period;

(iii) in the case of the first Principal Determination Date, the amount (if any) by which the aggregate principal amount of the Class A Notes and the Mezzanine Notes on issue exceeds the aggregate of the amounts paid in cash and not by the issue of Loan Stock to acquire Mortgages on the Closing Date in accordance with the Mortgage Sale Agreement and the amounts applied in establishing the Reserve Fund;

(iv) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes or Mezzanine Notes on the Interest Payment Date relative thereto; and

(v) any part of the amount deducted pursuant to (B)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances, in purchasing and cancelling Class A Notes or paying interest on the Class A Notes, in each case on or prior to the preceding Interest Payment Date; less

(B) the aggregate of:

(i) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period);

(ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings from the Reserve Fund;

(iii) the aggregate Principal Amount Outstanding of Class A Notes purchased and cancelled during the relevant Collection Period or (as a result of any commitment entered into during such relevant Collection Period) expected to be purchased and cancelled on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period;

(iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due and overdue on the Class A Notes on that Interest Payment Date, such estimate to be made on the assumption that the amount of interest due on that Interest Payment Date on each Mortgage on which the due amount was paid on the last Business Day of the preceding month will be paid in full, all as set out in the Administration Agreement; and

(v) the aggregate amount of principal applied during the relevant Collection Period in refunding direct debit payments,

in each such case (save for (A)(iv) and (v) above) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date.

The Available Redemption Funds on a Principal Determination Date shall be apportioned between the Class A Notes and the Mezzanine Notes to determine the "Class A Available Redemption Funds" and the "Mezzanine Available Redemption Funds" as at such Principal Determination Date. The Class A Available Redemption Funds shall equal:

(i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the first Interest Payment Date on which the ratio of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Mezzanine Notes) of the Mezzanine Notes to the sum of the aggregate Principal Amount Outstanding of the Class A Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Mezzanine Notes is 20 : 122.5 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and

(ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Mezzanine Available Redemption Funds determined as at such date.

The Mezzanine Available Redemption Funds shall equal:

(i) where such Principal Determination Date falls prior to the occurrence of the Determination Event or (thereafter) if on such Principal Determination Date there is any balance on the Principal Deficiency Ledger, nil; and

(ii) on any other Principal Determination Date, provided there is a balance of zero on the Principal Deficiency Ledger, that amount of the Available Redemption Funds determined as at such date which, if

applied to the redemption of the Mezzanine Notes, would cause the ratio of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Mezzanine Notes) of the Mezzanine Notes to the sum of the aggregate Principal Amount Outstanding of the Class A Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Mezzanine Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 20 : 122.5; provided that the aggregate Principal Amount Outstanding (defined as aforesaid) of the Mezzanine Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £1,000,000.

If the Issuer does not for any reason determine the aggregate principal amount of Class A Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

*(b) Calculation of Principal Payments, Principal Amount Outstanding and Pool Factor*

(i) On (or as soon as practicable after) each Principal Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class A Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class A Note on the next Interest Payment Date) and (z) the fraction expressed as a decimal to the sixth point (the "Pool Factor"), of which the numerator is the Principal Amount Outstanding of a Class A Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class A Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The "Principal Amount Outstanding" of a Class A Note on any date shall be the principal amount of that Class A Note upon issue less the aggregate amount of all Principal Payments in respect of that Class A Note that have become due and payable (whether or not paid) prior to such date.

(ii) The Issuer will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class A Notes are listed on the London Stock Exchange) the London Stock Exchange and will immediately cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class A Condition 12 by not later than five Business Days prior to the relevant Interest Payment Date. If no Principal Payment is due to be made on the Class A Notes on any Interest Payment Date a notice to this effect will be given to the Class A Noteholders.

(iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding or the Pool Factor applicable to Class A Notes in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

*(c) Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class A Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class A Condition 12 redeem all, but not some only, of the Class A Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date.

*(d) Optional Redemption in Full*

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class A Noteholders, and provided no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the



Trustee) all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, the Issuer may redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after January 2002.

All, (but not some only), of the Class A Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the sum of the aggregate of the Principal Amount Outstanding of the Class A Notes and the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Mezzanine Notes) of the Mezzanine Notes is less than £24,500,000.

*(e) Redemption on Maturity*

If not otherwise redeemed or purchased and cancelled, the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in October 2030.

*(f) Purchases*

Prior to the occurrence of the Determination Event, the Issuer may purchase Class A Notes at any time in the open market or otherwise at any price at or below their Principal Amount Outstanding (excluding accrued interest and expenses) provided that all unmatured and unused Coupons and Talons are surrendered with such Class A Notes. The Issuer may not purchase Class A Notes after the occurrence of the Determination Event.

*(g) Cancellation*

All Class A Notes redeemed in full or purchased pursuant to the foregoing provisions will be cancelled forthwith, together with all unmatured and unused Coupons and Talons attached thereto or surrendered therewith, and may not be resold or reissued.

*(h) Certification*

For the purposes of any redemption made pursuant to Class A Condition 5(c) or Class A Condition 5(d), as the case may be, the Trustee may rely upon any certificate of two Directors of the Issuer that the Issuer will be in a position to discharge all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes and such certificate shall be conclusive and binding on the Issuer and the holders of the Class A Notes.

## **6. Payments**

Interest Payments and Principal Payments will be made against presentation and surrender of, or, in the case of partial redemption, endorsement of respectively, Interest Coupons and Principal Coupons relating to Class A Notes (except where, after such surrender, the unpaid principal amount of a Class A Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Class A Note) in which case such Principal Payment will be made against presentation and surrender of such Class A Note). Payments of principal other than Principal Payments (except as provided in the preceding sentence) will be made against presentation and surrender of Class A Notes. Presentation must be made at the specified office of any Paying Agent provided that no payment of interest will be made by, or upon presentation of any Class A Note or Coupon to, any Paying Agent in the United States of America. Payments will be made by pounds sterling cheque drawn on a branch in the City of London of, or transfer to a pounds sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment.

The initial Principal Paying Agent is Morgan Guaranty Trust Company of New York at its office at 60 Victoria Embankment, London EC4Y 0JP.

The Issuer may at any time (with the previous written approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will at all times maintain a Paying Agent having a specified office in the City of London. Notice of any such termination or appointment and of any change in the office through which any Paying Agent will act will be given in accordance with Class A Condition 12.

Upon the date on which the Principal Amount Outstanding of a Class A Note is due to be reduced to zero, unmatured and unused Coupons and Talons relating thereto (whether or not attached) shall become void and no payment or exchange shall be made in respect thereof. If the due date for redemption in full of a Class A Note is not an Interest Payment Date, the interest accrued in respect of the period from the preceding Interest Payment Date (or from the Closing Date as the case may be) shall be payable only against presentation or surrender of the relevant Class A Note.

If the due date for payment of any amount of principal or interest in respect of any Class A Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and

the holder thereof shall not be entitled to any further interest or other payment in respect of such delay. In this Class A Condition 6 the expression “Business Day” means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class A Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class A Note for definitive Class A Notes, on which both Euroclear and Cedel Bank are open for business.

If interest is not paid in respect of a Class A Note on the date when due and payable (other than because the due date is not a Business Day), such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to the Class A Notes until such interest and interest thereon is available for payment and notice thereof has been duly given in accordance with Class A Condition 12.

#### **7. Taxation**

All payments in respect of the Class A Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any Paying Agent is required by applicable law to make any payment in respect of the Class A Notes subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor the Paying Agents will be obliged to make any additional payments to holders of Class A Notes or Coupons in respect of such withholding or deduction.

#### **8. Prescription**

A Principal Coupon shall become void in its entirety unless surrendered for payment within ten years of the Relevant Date in respect of any payment thereon. A Class A Note shall become void in its entirety unless surrendered for payment within ten years of the Relevant Date in respect of any payment thereon the effect of which would be to reduce the Principal Amount Outstanding of such Class A Note to zero. An Interest Coupon shall become void unless surrendered for payment within five years of the Relevant Date in respect thereof. After the date on which a Class A Note or a Coupon becomes void in its entirety, no claim may be made in respect thereof.

As used in these Class A Conditions, the “Relevant Date” means the date on which a payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given in accordance with Class A Condition 12.

#### **9. Events of Default**

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class A Notes outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders (subject, in each case, to being indemnified to its satisfaction) shall, (but, in the case of the happening of any of the events mentioned in (ii) to (v) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Class A Notes, only if the Trustee shall have certified in writing that the Issuer had, on the due date for payment of the amount of interest in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such interest (after payment of all sums which it is permitted under the Deed of Charge to pay in priority thereto or *pari passu* therewith)), give notice (an “Enforcement Notice”) to the Issuer that the Class A Notes are, and each Class A Note shall accordingly forthwith become, immediately due and repayable at its Principal Amount Outstanding, together with accrued interest as provided in the Trust Deed, if any of the following events (each an “Event of Default”) shall occur:

(i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Class A Notes or any of them or for a period of 15 days or more in the payment on the due date of any interest upon the Class A Notes or any of them; or

(ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class A Noteholders; or

(iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the

Court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or

(iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Class A Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Class A Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice, by the Trustee to the Issuer requiring the same to be remedied; or

(v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the NHL Subordinated Loan Agreement, the Fee Letter and the Loan Stock) or otherwise becomes insolvent.

## **10. Enforcement**

At any time after the Class A Notes become due and repayable at their Principal Amount Outstanding, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the security for the Class A Notes and Coupons and to enforce repayment of the Class A Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or so requested in writing by Class A Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing, if the Class A Notes have become due and repayable pursuant to Class A Condition 9 otherwise than by reason of a default in payment of any amount due on the Class A Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class A Noteholders and the Couponholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class A Noteholders and the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class A Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

## **11. Replacements of Class A Notes, Coupons and Talons**

If any Class A Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Class A Notes, Coupons or Talons must be surrendered before replacements will be issued.

## **12. Notices**

All notices, other than notices given in accordance with the next following paragraph, to Class A Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the Financial Times) or, if this is not practicable, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above.

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to have

been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently page NHLV) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Class A Noteholders (the “Relevant Screen”). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class A Condition shall be given in accordance with the preceding paragraph.

The Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Class A Noteholders in accordance with this Class A Condition.

### **13. Meetings of Class A Noteholders; Modifications; Consents; Waiver**

The Trust Deed contains provisions for convening meetings of Class A Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class A Noteholders of a modification of the Class A Notes (including these Class A Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class A Notes, or a modification which would have the effect of postponing any day for payment of interest on the Class A Notes, reducing or cancelling the amount of principal payable in respect of Class A Notes or the rate of interest applicable to the Class A Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Class A Notes or the Coupons or any alteration of the date or priority of redemption of the Class A Notes (any such modification being referred to below as a “Basic Terms Modification”) shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class A Noteholders as described below. The quorum at any meeting of Class A Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50% of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class A Noteholders whatever the aggregate Principal Amount Outstanding of the Class A Notes so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing 75%, or at any adjourned such meeting 25%, or more of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding. The Trust Deed contains provisions limiting the powers of the Mezzanine Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Mezzanine Noteholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class A Noteholders shall be binding on all Class A Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution.

The Trustee may agree, without the consent of the Class A Noteholders or Couponholders, (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of the Class A Notes (including these Class A Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Class A Noteholders or (ii) to any modification of the Class A Notes (including these Class A Conditions) or any of the Relevant Documents which, in the Trustee’s opinion, is to correct a manifest error or is of a formal, minor or technical nature. The Trustee may also, without the consent of the Class A Noteholders or the Couponholders, determine that any Event of Default or any condition, event or act which with the giving of notice and/or lapse of time and/or the issue of a certificate would constitute an Event of Default shall not, or shall not subject to specified conditions, be treated as such. Any such modification, waiver, authorisation or determination shall be binding on the Class A Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class A Noteholders in accordance with Class A Condition 12 as soon as practicable thereafter.

### **14. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to realise the Security and to obtain repayment of the Class A Notes unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other party to the Relevant Documents without accounting for any profit resulting from such transactions. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

**15. Notifications and Other Matters to be Final**

Notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Class A Notes and the Coupons, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Reference Agent, the Trustee, the Administrator, the Principal Paying Agent, the other Paying Agents (if any) and all Class A Noteholders and Couponholders and (subject as aforesaid) no liability to the Issuer, the Administrator or the Class A Noteholders or Couponholders shall attach to the Reference Banks, the Reference Agent, the Issuer, the Administrator or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

**16. Governing Law**

The Class A Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law.

## **DESCRIPTION OF THE MEZZANINE NOTES, THE GLOBAL MEZZANINE NOTES AND THE SECURITY**

The issue of the Mezzanine Notes is and will be authorised by resolution of the Board of Directors of the Issuer passed on 14th and 18th December 1995. The Mezzanine Notes will be constituted by a trust deed (the "Trust Deed") expected to be dated 18th December 1995 between the Issuer and Morgan Guaranty Trust Company of New York, acting through its London office, (the "Trustee", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Mezzanine Notes (the "Mezzanine Noteholders") and the holders for the time being of the Class A Notes (the "Class A Noteholders"). The proceeds of the issues of the Mezzanine Notes and the Class A Notes will be applied by the Issuer towards payment to NHL and HLDL of the purchase price for the Mortgages to be purchased under a mortgage sale agreement dated 14th December 1995 (the "Mortgage Sale Agreement") and in establishing the Reserve Fund.

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, NHL, HLDL, the Administrator, Barclays and the Swap Counterparty (the "Deed of Charge"). The Trust Deed will include the form of the Global Mezzanine Notes and the definitive Mezzanine Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the "Agency Agreement") expected to be dated 18th December 1995 between the Issuer, the Trustee and Morgan Guaranty Trust Company of New York as principal paying agent (the "Principal Paying Agent", which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the "Reference Agent", which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agents, "the Paying Agents", which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Mezzanine Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Mezzanine Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement, the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof 60 Victoria Embankment, London EC4Y 0JP, and at the specified offices for the time being of the Paying Agents.

Mezzanine Notes and Coupons (as defined below) will bear the following legend: "Any United States Person (as defined in the Internal Revenue Code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code". The sections referred to in the legend provide that a United States Person (as defined in the Internal Revenue Code) will not, with certain exceptions, be permitted to deduct any loss, and will not be eligible for favourable capital gains treatment with respect to any gain, realised on a sale, exchange or redemption of a Mezzanine Note or Coupon.

### **Global Mezzanine Notes**

The Mezzanine Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Mezzanine Note in bearer form, without coupons or talons, in the principal amount of £10,000,000. The Temporary Global Mezzanine Note will be deposited on behalf of the subscribers of the Mezzanine Notes with Morgan Guaranty Trust Company of New York, London office, as common depositary for Euroclear and Cedel Bank (the "Common Depositary") on the Closing Date. Upon deposit of the Temporary Global Mezzanine Note, Euroclear or Cedel Bank will credit each subscriber of Mezzanine Notes with the principal amount of Mezzanine Notes for which it has subscribed and paid. Interests in the Temporary Global Mezzanine Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Mezzanine Noteholders has been received) for interests in the Permanent Global Mezzanine Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Mezzanine Note (the expression "Global Mezzanine Notes" and "Global Mezzanine Note" meaning, respectively, (i) both of the Temporary Global Mezzanine Note and the Permanent Global Mezzanine Note or (ii) either of the Temporary Global Mezzanine Note or Permanent Global Mezzanine Note, as the context may require). On the exchange of the Temporary Global Mezzanine Note for the Permanent Global Mezzanine Note, the Permanent Global Mezzanine Note will also be deposited with the Common Depositary. The Global Mezzanine Notes will be transferable by delivery. The Permanent Global Mezzanine Note will be exchangeable for definitive Mezzanine Notes in bearer form in certain circumstances described below. Interest and principal on each Global Mezzanine Note will be payable against presentation of that Global Mezzanine Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership

by the Mezzanine Noteholders has been received by Euroclear or Cedel Bank. Each of the persons appearing from time to time in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear, or of Cedel Bank, as the holder of a Mezzanine Note will be entitled to receive any payment so made in respect of that Mezzanine Note in accordance with the respective rules and procedures of Euroclear or, as the case may be, Cedel Bank. Such persons shall have no claim directly against the Issuer in respect of payments due on the Mezzanine Notes, which must be made by the holder of the relevant Global Mezzanine Note, for so long as such Global Mezzanine Note is outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Mezzanine Note for the Permanent Global Mezzanine Note, which date shall be no earlier than the Exchange Date (as defined in the Temporary Global Mezzanine Note) and (ii) the first Interest Payment Date, in order to obtain any payment due on the Mezzanine Notes.

For so long as the Mezzanine Notes are represented by a Global Mezzanine Note, the Mezzanine Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Cedel Bank.

For so long as the Mezzanine Notes are represented by a Global Mezzanine Note, each person who is for the time being shown in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear or of Cedel Bank as the holder of a particular principal amount of Mezzanine Notes will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Mezzanine Notes and the expression "Mezzanine Noteholder" shall be construed accordingly, but without prejudice to the entitlement of the bearer of the Global Mezzanine Note to be paid principal and interest thereon in accordance with its terms.

Principal and interest on a Global Mezzanine Note will be payable against presentation of such Global Mezzanine Note at the specified office of the Principal Paying Agent or, at the option of the holder, at any specified office of any Paying Agent provided that no payment of interest on a Global Mezzanine Note may be made by, or upon presentation of such Global Mezzanine Note to, any Paying Agent in the United States of America. A record of each payment made on a Global Mezzanine Note, distinguishing between any payment of principal and payment of interest, will be endorsed on such Global Mezzanine Note by the Paying Agent to which such Global Mezzanine Note was presented for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made.

If (i) the principal amount of the Mezzanine Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Cedel Bank is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 14th December 1995, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Mezzanine Notes which would not be required were the Mezzanine Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Mezzanine Notes represented by the Permanent Global Mezzanine Note in exchange for the whole outstanding interest in the Permanent Global Mezzanine Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

## **Security**

The security for the Mezzanine Notes will be created pursuant to, and on the terms set out in, the Deed of Charge, which will create in favour of the Trustee on trust for (*inter alios*) the Mezzanine Noteholders:

- (1) a sub-charge over the Mortgages purchased by the Issuer from NHL and HLDL under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment of the benefit of the guarantee;
- (2) an assignment of the Issuer's interest in the security created over the life assurance policies as collateral security for the obligations of borrowers under, and, where applicable, guarantors with respect to, certain Mortgages;
- (3) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (4) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the NHL Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust (as defined in "The NHL VAT Group"

below), under the NHL Collection Account Declaration of Trust and the HLDL Collection Account Declaration of Trust (each as defined in “Mortgage Administration – Payments from Borrowers” below), under the Swap Agreement, under the Instrument (as defined in “The Issuer” below), under any Caps and under any Guaranteed Investment Contract;

(5) an assignment of the Issuer’s rights to all moneys standing to the credit of the Issuer’s bank accounts at NatWest (the “Transaction Account” and the “Escrow Account”), and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);

(6) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors);

(7) as far as possible, a charge over the Issuer’s entitlement to receive payments from the Inland Revenue under the Mortgage Interest Relief at Source Scheme (the “MIRAS Scheme”); and

(8) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Mezzanine Notes, are referred to as the “Security”. The Security will also stand as security for any amounts payable by the Issuer to the Class A Noteholders (as defined in Condition 1 below) and to any Receiver, the Trustee, Barclays, the Administrator, the Stockholder, any GIC Provider, HLDL, NHL, any Subordinated Lender and the Swap Counterparty under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the NHL Subordinated Loan Agreement, the Instrument, the Swap Agreement and any Guaranteed Investment Contract. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After service of an Enforcement Notice, amounts payable to any Receiver and the Trustee, amounts payable to Barclays and fees, third party enforcement expenses, commissions payable to the Administrator and amounts due and payable to Class A Noteholders will rank in priority to payments on the Mezzanine Notes.

## **Terms and Conditions**

If Mezzanine Notes in definitive bearer form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Mezzanine Note would be as set out below (the “Mezzanine Conditions”). While the Mezzanine Notes remain in global form, the same terms and conditions govern them, except to the extent that they are appropriate only to Mezzanine Notes in definitive form.

### **1. Form, Denomination and Title**

The £10,000,000 Mezzanine Mortgage Backed Floating Rate Notes Due 2030 of the Issuer (the “Mezzanine Notes”) are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons (“Interest Coupons”) and principal coupons (“Principal Coupons”) (severally or together “Coupons”) and talons (“Talons”) attached. Title to the Mezzanine Notes, the Coupons and the Talons shall pass by delivery.

The holder of each Coupon (each a “Couponholder”) and each Talon (whether or not the Coupon or the Talon is attached to a Mezzanine Note) in his capacity as such shall be subject to and bound by all the provisions contained in the relevant Mezzanine Note.

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents (as defined in a trust deed (the “Trust Deed”) dated 18th December 1995 between the Issuer and Morgan Guaranty Trust Company of New York, acting through its London office (the “Trustee”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the time being of the holders of the Mezzanine Notes (the “Mezzanine Noteholders”) and the holders of the Class A Notes (as defined below) (the “Class A Noteholders”) may treat the holder of any Mezzanine Note, Coupon or Talon as the absolute owner thereof (whether or not such Mezzanine Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

### **2. Status and Relationship with the Class A Notes**

The Mezzanine Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “Deed of Charge”) dated 18th December 1995 between the Issuer, the Trustee, The National Home Loans Corporation plc, Homeloans Direct Limited, Barclays Bank PLC and Morgan Guaranty Trust Company of New York as Swap Counterparty) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.



Payments of principal and interest on the Mezzanine Notes are subordinated to, *inter alia*, payments of principal and interest on the £112,500,000 Class A Mortgage Backed Floating Rate Notes Due 2030 of the Issuer (the “Class A Notes”) in accordance with the provisions of Mezzanine Condition 7, the Trust Deed and the Deed of Charge.

The Class A Notes are constituted by the Trust Deed and are secured by the same security as secures the Mezzanine Notes but the Class A Notes will rank in priority to the Mezzanine Notes in the event of the security being enforced. The Trust Deed and Deed of Charge contain provisions requiring the Trustee to have regard to the interests of both the Mezzanine Noteholders and the Class A Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Mezzanine Noteholders and the Class A Noteholders and other persons entitled to the benefit of the Security (as defined in the Trust Deed).

### 3. Covenants of the Issuer

(a) So long as any of the Mezzanine Notes or the Class A Notes remains outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:

(1) carry on any business other than as described in the Offering Circular dated 14th December 1995 relating to the issues of the Mezzanine Notes and the Class A Notes respectively (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:

(a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances and making purchases of Class A Notes prior to the occurrence of the Determination Event;

(b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Mezzanine Notes, the Coupons and Talons, the Class A Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreement relating to the Mezzanine Notes, the subscription agreement relating to the Class A Notes and the other agreements relating to the issue of the Mezzanine Notes and the Class A Notes (or any of them), the Agency Agreement, the Trust Deed, the Loan Stock and the Instrument, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the NHL Subordinated Loan Agreement, the Transfers, the Mortgages, the Charges, the Deed of Charge, the NHL Collection Account Declaration of Trust, the HLDL Collection Account Declaration of Trust, the Swap Agreement, any Caps, any Guaranteed Investment Contract, the Assignment of Charges, the Deed of Assignment, the VAT Declaration of Trust, the Services Letter, the Assignment of Insurances and the Insurance Contracts, the other insurances in which the Issuer at any time has an interest and all other agreements and documents comprised in the security for the Mezzanine Notes and the Class A Notes (all as defined either in the Trust Deed or in the Mortgage Sale Agreement) (together the “Relevant Documents”);

(c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, *inter alia*, to make claims, payments and surrenders in respect of certain tax reliefs;

(d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents; and

(e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;

(2) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding for the avoidance of doubt, in particular, indebtedness under the Deed of Charge, the Fee Letter, the VAT Declaration of Trust and indebtedness incurred on the issue of Loan Stock and excluding any borrowing in accordance with the provisions of the NHL Subordinated Loan Agreement;

(3) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever over any of its assets, or sell or otherwise dispose of any of the Security;

(4) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:

(a) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Mezzanine Notes and the Class A Notes and the performance and observance of every covenant in the Trust Deed and in these Mezzanine Conditions on the part of the Issuer to be performed or observed;

(b) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;

(c) the Trustee is satisfied that the interests of the Mezzanine Noteholders and the Class A Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;

(d) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and

(e) the then current ratings of the Mezzanine Notes and the Class A Notes are not adversely affected;

(5) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;

(6) in a manner which adversely affects the then current rating of the Mezzanine Notes or the Class A Notes, have any employees or premises or have any subsidiary; or

(7) have an interest in any bank account, other than the Transaction Account and the Escrow Account or the VAT Account (as defined in the VAT Declaration of Trust), unless such account or interest is charged to the Trustee on terms acceptable to it.

(b) So long as any of the Mezzanine Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the "Administrator"). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England and Wales. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Mezzanine Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, Barclays Bank PLC ("Barclays") will act as administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the NHL Subordinated Loan Agreement or the Mortgage Sale Agreement.

#### **4. Interest**

##### *(a) Interest Payment Dates*

Each Mezzanine Note bears interest on its Principal Amount Outstanding (as defined in Condition 5(b)) from and including 18th December 1995 or such later date as may be agreed between the Issuer and the Manager for the issue of the Notes (the "Closing Date"). Provided certification of non-U.S. beneficial ownership has been received with respect to the Mezzanine Notes, interest in respect of the Mezzanine Notes is (subject to Mezzanine Condition 7) payable quarterly in arrear on the last Business Day falling in April 1996 and, thereafter, on the last Business Day falling in July, October, January and April in each year (each, including the last Business Day falling in April 1996 an "Interest Payment Date"). To the extent that the funds available to the Issuer to pay interest on the Mezzanine Notes on an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall ("Deferred Interest") which will be borne by each Mezzanine Note, in a proportion equal to the proportion that the Principal Amount Outstanding of that Mezzanine Note bears to the aggregate Principal Amount Outstanding of the Mezzanine Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not then fall due but will instead be deferred until the first Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available (after allowing for the Issuer's liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. Such Deferred Interest will accrue interest ("Additional Interest") at the rate of interest applicable from time to time to the Mezzanine Notes and payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest to

the extent of such available funds. To the extent that any such Deferred or Additional Interest is not subsequently paid, then at the final maturity of the Mezzanine Notes the Issuer's obligation to the Mezzanine Noteholders in respect of any such Deferred Interest and/or Additional Interest shall cease. As used in these Mezzanine Conditions except Mezzanine Condition 6, "Business Day" means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an "Interest Period". Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the last Business Day falling in April 1996 in respect of the period from (and including) the Closing Date to (but excluding) the last Business Day falling in April 1996.

Interest shall cease to accrue on any part of the Principal Amount Outstanding of a Mezzanine Note as from (and including) the due date for redemption of such part unless, upon due presentation of the relevant Principal Coupon, payment of principal due is improperly withheld or refused, whereupon interest shall continue to accrue on such principal at the rate from time to time applicable to the Mezzanine Notes until the moneys in respect thereof have been received by the Trustee or the Principal Paying Agent (as defined in the Trust Deed) and notice to that effect is given in accordance with Mezzanine Condition 13.

*(b) Coupons and Talons*

On issue, Coupons and Talons applicable to Mezzanine Notes in definitive form are attached to the Mezzanine Notes. A Talon may be exchanged for further Coupons and, if applicable, a further Talon on or after the Interest Payment Date for the final Coupon on the relevant Coupon sheet by surrendering such Talon at the specified office of any Paying Agent. Interest payments on the Mezzanine Notes will be made against presentation and surrender of the appropriate Coupons in accordance with Mezzanine Condition 6, except as provided therein.

*(c) Rate of interest*

The rate of interest applicable from time to time to the Mezzanine Notes (the "Rate of Interest") will be determined by Morgan Guaranty Trust Company of New York acting as reference agent (the "Reference Agent", which expression shall include its successors as Reference Agent under the Agency Agreement) on the basis of the following provisions:

(i) On the Closing Date (an "Interest Determination Date") in respect of the first Interest Period, the Reference Agent will determine the interest rate on the linear interpolation between sterling deposits for a period of three months and sterling deposits for a period of six months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each an "Interest Determination Date"), the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the Closing Date and the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.80% per annum up to and including the Interest Period ending in January 2004 and thereafter 2.00% per annum.

(ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds Bank Plc, Midland Bank plc and National Westminster Bank PLC or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the "Reference Banks") to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits (or for three-month and six-month sterling deposits, in respect of the first Interest Period) of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing

such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.

(iii) There shall be no maximum or minimum Rate of Interest.

*(d) Determination of Rate of Interest, Calculation of Interest Payments, Deferred Interest and Additional Interest*

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable, subject to Mezzanine Condition 7, on, a Mezzanine Note (an "Interest Payment") for the relevant Interest Period. The Interest Payment for a Mezzanine Note shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of a Mezzanine Note taking into account any payment of principal due on such Interest Determination Date, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). On (or as soon as practicable after) each Principal Determination Date (as defined in Mezzanine Condition 5(a)), the Issuer shall determine (or cause the Administrator to determine) the actual amount of interest which will be paid on each Mezzanine Note on the Interest Payment Date next following such Principal Determination Date and the amount of Deferred Interest (if any) on each Mezzanine Note in respect of the Interest Period ending on such Interest Payment Date and the amount of Additional Interest (if any) which will be paid on such Interest Payment Date. The amount of Additional Interest shall be calculated by applying the relevant Rate of Interest to the Deferred Interest relating to the Mezzanine Notes and any Additional Interest from prior Interest Periods which remains unpaid, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). In the event that on any Principal Determination Date funds then available to the Issuer are insufficient to pay in full the Interest Payment, any outstanding Deferred Interest and any Additional Interest due on the Interest Payment Date next following such Principal Determination Date such funds will be applied first to the payment of any Interest Payment, secondly to the payment of any outstanding Deferred Interest and thereafter the payment of any Additional Interest.

*(e) Publication of Rate of Interest, Interest Payments, Deferred Interest and Additional Interest*

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to the Mezzanine Notes for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as the Mezzanine Notes are listed on the Official List of the London Stock Exchange Limited (the "London Stock Exchange"), the London Stock Exchange, and will cause the same to be published in accordance with Mezzanine Condition 13 on or as soon as possible after the date of commencement of the relevant Interest Period. The Issuer will cause the Deferred Interest (if any) and the Additional Interest (if any) applicable to the Mezzanine Notes for each Interest Period to be notified to the Trustee, the Paying Agents and (for so long as the Notes are listed on the London Stock Exchange) the London Stock Exchange, and will cause the same to be published in accordance with Mezzanine Condition 13 no later than the fourth Business Day prior to the relevant Interest Payment Date. The Interest Payment, Deferred Interest, Additional Interest and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a shortening of the Interest Period.

*(f) Determination or Calculation by Trustee*

If the Reference Agent at any time for any reason does not determine the Rate of Interest or calculate an Interest Payment or the Additional Interest (if any) in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in paragraph (c) above, but subject to the terms of the Trust Deed), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Payment or the Additional Interest (if any) in accordance with paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

*(g) Reference Banks and Reference Agent*

The Issuer will procure that, so long as any of the Mezzanine Notes remains outstanding, there will at all times be four Reference Banks and a Reference Agent. The Issuer reserves the right at any time to terminate the appointment of the Reference Agent or of any Reference Bank. Notice of any such termination will be given to Mezzanine Noteholders. If any person shall be unable or unwilling to continue to act as a Reference Bank or the Reference Agent (as the case may be), or if the appointment of any Reference Bank or the Reference Agent shall be terminated, the Issuer will, with the approval of the Trustee, appoint a successor Reference Bank or Reference Agent (as the case may be) to act as such in its place, provided that neither the resignation nor removal of the Reference Agent shall take effect until a successor approved by the Trustee has been appointed.

## **5. Redemption and Purchase**

*(a) Mandatory Redemption in Part from Available Redemption Funds: Apportionment of Available Redemption Funds Between the Mezzanine Notes and the Class A Notes*

The Mezzanine Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Principal Determination Date (as defined below) relating thereto there are any Mezzanine Available Redemption Funds (as defined below). The principal amount so redeemable in respect of each Mezzanine Note, prior to the service of an Enforcement Notice (each a “Principal Payment”) on any Interest Payment Date shall be the amount of the Mezzanine Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date divided by the number of Mezzanine Notes then outstanding (as defined in the Trust Deed) (rounded down to the nearest pound sterling); provided always that no Principal Payment may exceed the Principal Amount Outstanding of a Mezzanine Note.

The Principal Determination Date relating to an Interest Payment Date means the ninth day or, if earlier, the fifth Business Day prior to such Interest Payment Date.

“Available Redemption Funds” on any Principal Determination Date means:

(A) the aggregate of:

(i) all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents but excluding any such principal which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer) during the period from (and including) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (but excluding) the Principal Determination Date in question (the “relevant Collection Period”);

(ii) any final releases (as defined in the Administration Agreement) made or to be made to the Issuer from the Reserve Fund in the relevant Collection Period;

(iii) in the case of the first Principal Determination Date, the amount (if any) by which the aggregate principal amount of the Mezzanine Notes and the Class A Notes on issue exceeds the aggregate of the amounts paid in cash and not by the issue of Loan Stock to acquire the Mortgages on the Closing Date in accordance with the Mortgage Sale Agreement and the amounts applied in establishing the Reserve Fund;

(iv) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Mezzanine Notes or Class A Notes on the Interest Payment Date relative thereto; and

(v) any part of the amount deducted pursuant to (B)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances, in purchasing and cancelling Class A Notes or in paying interest on the Class A Notes, in each case on or prior to the preceding Interest Payment Date; less

(B) the aggregate of:

(i) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period);

(ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding

the relevant Collection Period) other than such as have been or will be funded by drawings from the Reserve Fund;

(iii) the aggregate Principal Amount Outstanding of Class A Notes purchased and cancelled during the relevant Collection Period or (as a result of any commitment entered into during such relevant Collection Period) expected to be purchased and cancelled on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period;

(iv) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due and overdue on the Class A Notes on that Interest Payment Date, such estimate to be made on the assumption that the amount of interest due on that Interest Payment Date on each Mortgage on which the due amount was paid on the last Business Day of the preceding month will be paid in full, all as set out in the Administration Agreement; and

(v) the aggregate amount of principal applied during the relevant Collection Period in refunding direct debit payments,

in each such case (save for (A) (iv) and (v) above) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date.

The Available Redemption Funds on a Principal Determination Date shall be apportioned between the Mezzanine Notes and the Class A Notes to determine the “Mezzanine Available Redemption Funds” and the “Class A Available Redemption Funds” as at such Principal Determination Date. The Class A Available Redemption Funds shall equal:

(i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the first Interest Payment Date on which the ratio of the aggregate Principal Amount Outstanding of the Mezzanine Notes to the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes and the aggregate Principal Amount Outstanding of the Mezzanine Notes is 20 : 122.5 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and

(ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Mezzanine Available Redemption Funds determined as at such date.

The Mezzanine Available Redemption Funds shall equal:

(i) where such Principal Determination Date falls prior to the occurrence of the Determination Event or (thereafter) if on such Principal Determination Date there is any balance on the Principal Deficiency Ledger, nil; and

(ii) on any other Principal Determination Date, provided there is a balance of zero on the Principal Deficiency Ledger, that amount of the Available Redemption Funds determined as at such date which, if applied to the redemption of the Mezzanine Notes, would cause the ratio of the aggregate Principal Amount Outstanding of the Mezzanine Notes to the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes and the aggregate Principal Amount Outstanding of the Mezzanine Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 20 : 122.5); provided that the aggregate Principal Amount Outstanding of the Mezzanine Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £1,000,000.

If the Issuer does not for any reason determine the aggregate principal amount of Mezzanine Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

*(b) Calculation of Principal Payments, Principal Amount Outstanding and Pool Factor*

(i) On (or as soon as practicable after) each Principal Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Mezzanine Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Mezzanine Note on the next Interest Payment Date) and (z) the fraction expressed as a decimal to the sixth point (the “Pool Factor”), of which the numerator is the Principal Amount Outstanding of a Mezzanine Note (as referred to in (y) above) and the denominator is

10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Mezzanine Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The "Principal Amount Outstanding" of a Mezzanine Note on any date shall be the principal amount of that Mezzanine Note upon issue less the aggregate amount of all Principal Payments in respect of that Mezzanine Note that have become due and payable (whether or not paid) prior to such date.

(ii) The Issuer will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Mezzanine Notes are listed on the London Stock Exchange) the London Stock Exchange and will immediately cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Mezzanine Condition 13 by not later than five Business Days prior to the relevant Interest Payment Date. If no Principal Payment is due to be made on the Mezzanine Notes on any Interest Payment Date a notice to this effect will be given to the Mezzanine Noteholders.

(iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

*(c) Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Mezzanine Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, provided that on the Interest Payment Date on which such notice expires either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Mezzanine Notes (including the full amount of interest payable on the Mezzanine Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Mezzanine Condition 7(a)) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Mezzanine Notes, or the Trustee is otherwise directed by Extraordinary Resolution (as defined in the Trust Deed) of the Mezzanine Noteholders, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Mezzanine Condition 13, redeem all, but not some only, of the Mezzanine Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date subject, in the case of a redemption pursuant to such an Extraordinary Resolution, to Mezzanine Condition 7.

*(d) Optional Redemption in Full*

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Mezzanine Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Mezzanine Notes (including the full amount of interest payable on the Mezzanine Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Mezzanine Condition 7(a)) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Mezzanine Notes or the Trustee is otherwise directed by Extraordinary Resolution of the Mezzanine Noteholders, the Issuer may, on any Interest Payment Date falling in or after January 2002 or, if earlier, falling on or after the date on which all the Class A Notes are redeemed, redeem all (but not some only) of the Mezzanine Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption, subject, in the case of a redemption pursuant to such an Extraordinary Resolution, to Mezzanine Condition 7.

*(e) Redemption on Maturity*

If not otherwise redeemed, the Mezzanine Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in October 2030, subject to Mezzanine Condition 7.

*(f) Purchases*

The Mezzanine Notes may not be purchased by the Issuer.

*(g) Cancellation*

All Mezzanine Notes redeemed in full will be cancelled forthwith, together with all unmatured and unused Coupons and Talons attached thereto or surrendered therewith, and may not be resold or reissued.

*(h) Certification*

For the purposes of any redemption made pursuant to Mezzanine Condition 5(c) or Mezzanine Condition 5(d), as the case may be, the Trustee may rely upon any certificate of two Directors of the Issuer that the Issuer will be in a position to discharge all its liabilities in respect of the Mezzanine Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Mezzanine Notes and such certificate shall be conclusive and binding on the Issuer and the holders of the Mezzanine Notes.

## **6. Payments**

Subject to Mezzanine Condition 7, Interest Payments and Principal Payments on Mezzanine Notes will be made against presentation and surrender of, or, in the case of partial redemption, endorsement of respectively, Interest Coupons and Principal Coupons (except where, after such surrender, the unpaid principal amount of a Mezzanine Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Mezzanine Note) in which case such Principal Payment will be made against presentation and surrender of such Mezzanine Note). Payments of principal other than Principal Payments (except as provided in the preceding sentence) will be made against presentation and surrender of Mezzanine Notes. Presentation must be made at the specified office of any Paying Agent provided that no payment of interest will be made by, or upon presentation of any Mezzanine Note or Coupon to, any Paying Agent in the United States of America. Payments will be made by pounds sterling cheque drawn on a branch in the City of London of, or transfer to a pounds sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment.

The initial Principal Paying Agent is Morgan Guaranty Trust Company of New York at its office at 60 Victoria Embankment, London EC4Y 0JP.

The Issuer may at any time (with the previous written approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will at all times maintain a Paying Agent having a specified office in the City of London. Notice of any such termination or appointment and of any change in the office through which any Paying Agent will act will be given in accordance with Mezzanine Condition 13.

Upon the date on which the Principal Amount Outstanding of a Mezzanine Note is due to be reduced to zero, unmatured and unused Coupons and Talons relating thereto (whether or not attached) shall become void and no payment or exchange shall be made in respect thereof. If the due date for redemption in full of a Mezzanine Note is not an Interest Payment Date, the interest accrued in respect of the period from the preceding Interest Payment Date (or from the Closing Date as the case may be) shall be payable only against presentation or surrender of the relevant Mezzanine Note.

If the due date for payment of any amount of principal or interest in respect of any Mezzanine Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay. In this Mezzanine Condition 6 the expression "Business Day" means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Mezzanine Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Mezzanine Note for definitive Mezzanine Notes, on which both Euroclear and Cedel Bank are open for business.

If interest is not paid in respect of a Mezzanine Note on the date when due and payable (other than because the due date is not a Business Day) such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to the Mezzanine Notes until such interest and interest thereon is available for payment and notice thereof has been duly given in accordance with Mezzanine Condition 13.



## **7. Subordination**

### *(a) Interest*

Interest on the Mezzanine Notes shall be payable in accordance with the provisions of Mezzanine Conditions 4 and 6 subject to the terms of this Mezzanine Condition.

In the event that the aggregate funds, if any, (computed in accordance with the provisions of the Deed of Charge), available to the Issuer on any Interest Payment Date for application in or towards the payment of interest which is, subject to this Mezzanine Condition, due on the Mezzanine Notes on such Interest Payment Date (such aggregate available funds being referred to in this Mezzanine Condition as the “Residual Amount”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Mezzanine Condition, due on the Mezzanine Notes on such Interest Payment Date, there shall be payable on such Interest Payment Date, by way of interest on each Mezzanine Note, a *pro rata* share of the Residual Amount on such Interest Payment Date.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Mezzanine Notes on any Interest Payment Date in accordance with this Mezzanine Condition falls short of the aggregate amount of interest payable on the Mezzanine Notes on that date pursuant to Mezzanine Condition 4. Such shortfall shall accrue interest in accordance with the provisions of Mezzanine Condition 4.

### *(b) Principal*

The Mezzanine Noteholders will not be entitled to any repayment of principal in respect of the Mezzanine Notes prior to the occurrence of the Determination Event. If, on any Interest Payment Date on which Mezzanine Notes are to be redeemed in full pursuant to Mezzanine Conditions 5(e) or 10 or pursuant to an Extraordinary Resolution 5(c) or 5(d), there is any debit balance on the Principal Deficiency Ledger (as defined in the Administration Agreement), then notwithstanding any other provisions of these Conditions the principal amount payable on such redemption of each Mezzanine Note shall be its Principal Amount Outstanding less the then Principal Deficiency after adding the balance of the First Loss Fund (divided by the number of Mezzanine Notes outstanding on such redemption) on such redemption. “Principal Deficiency” means the debit balance on the Principal Deficiency Ledger, divided by the number of Mezzanine Notes then outstanding. None of the foregoing shall prejudice the obligation of the Issuer to pay Mezzanine Available Redemption Funds in redemption in whole or in part of the Mezzanine Notes in accordance with Mezzanine Condition 5(a).

### *(c) General*

In the event that the security for the Mezzanine Notes and Coupons is enforced and the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to or *pari passu* with the Mezzanine Notes and Coupons under the Deed of Charge, to pay in full all principal and interest and other amounts whatsoever due in respect of the Mezzanine Notes, then the Mezzanine Noteholders and Couponholders shall have no further claim against the Issuer in respect of any such unpaid amounts.

## **8. Taxation**

All payments in respect of the Mezzanine Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any Paying Agent is required by applicable law to make any payment in respect of the Mezzanine Notes subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor the Paying Agents will be obliged to make any additional payments to holders of Mezzanine Notes or Coupons in respect of such withholding or deduction.

## **9. Prescription**

A Principal Coupon shall become void in its entirety unless surrendered for payment within ten years of the Relevant Date in respect of any payment thereon. A Mezzanine Note shall become void in its entirety unless surrendered for payment within ten years of the Relevant Date in respect of any payment thereon the effect of which would be to reduce the Principal Amount Outstanding of such Mezzanine Note to zero. An Interest Coupon shall become void unless surrendered for payment within five years of the Relevant Date in respect thereof. After the date on which a Mezzanine Note or a Coupon becomes void in its entirety, no claim may be made in respect thereof.

As used in these Mezzanine Conditions, the “Relevant Date” means the date on which a payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given in accordance with Mezzanine Condition 13.

## 10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Mezzanine Notes outstanding or if so directed by an Extraordinary Resolution of the Mezzanine Noteholders (subject, in each case, to being indemnified to its satisfaction and to restrictions contained in the Trust Deed to protect the interests of the Class A Noteholders) shall, (but, in the case of the happening of any of the events mentioned in (ii) to (v) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Mezzanine Noteholders and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Mezzanine Notes, only if the Trustee shall have certified in writing that the Issuer had, on the due date for payment of the amount of interest in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such interest (after payment of all sums which it is permitted under the Deed of Charge to pay in priority thereto or *pari passu* therewith)), give notice (an "Enforcement Notice") to the Issuer that the Mezzanine Notes are, and each Mezzanine Note shall accordingly forthwith become, immediately due and repayable subject to Mezzanine Condition 7 at its Principal Amount Outstanding, together with accrued interest (including any Deferred Interest and Additional Interest) as provided in the Trust Deed, if any of the following events (each an "Event of Default") shall occur:

(i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Mezzanine Notes or any of them or for a period of 15 days or more in the payment on the due date of any interest upon the Mezzanine Notes or any of them; or

(ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Mezzanine Noteholders; or

(iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the Court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or

(iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Mezzanine Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Mezzanine Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or

(v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the NHL Subordinated Loan Agreement, the Fee Letter and the Loan Stock) or otherwise becomes insolvent; or

(vi) notice is given to the Issuer pursuant to the Trust Deed that the Class A Notes are immediately due and repayable.

## 11. Enforcement

At any time after the Mezzanine Notes become due and repayable at their Principal Amount Outstanding, subject to Mezzanine Condition 7, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the security for the Mezzanine Notes and Coupons and to enforce repayment of the Mezzanine Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Mezzanine Noteholders or so requested in writing by Mezzanine Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Mezzanine Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing and so long as any

of the Class A Notes remain outstanding, if the Class A Notes have become due and payable pursuant to the Class A Conditions otherwise than by reason of a default in payment of any amount due on the Class A Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class A Noteholders and the holders of coupons appertaining to the Class A Notes (the "Class A Couponholders") and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class A Noteholders and the Class A Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Mezzanine Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

## **12. Replacements of Notes, Coupons and Talons**

If any Mezzanine Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Mezzanine Notes, Coupons or Talons must be surrendered before replacements will be issued.

## **13. Notices**

All notices, other than notices given in accordance with the next following paragraph, to Mezzanine Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be *The Financial Times*) or, if this is not practicable, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above.

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently page NHLV) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Mezzanine Noteholders (the "Relevant Screen"). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Mezzanine Condition shall be given in accordance with the preceding paragraph.

The Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Mezzanine Noteholders in accordance with this Mezzanine Condition.

## **14. Meetings of Mezzanine Noteholders; Modifications; Consents; Waiver**

The Trust Deed contains provisions for convening meetings of Mezzanine Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Mezzanine Noteholders of a modification of the Mezzanine Notes (including these Mezzanine Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Mezzanine Notes, or a modification which would have the effect of postponing any day for payment of interest on the Mezzanine Notes, reducing or cancelling the amount of principal payable in respect of the Mezzanine Notes or the rate of interest applicable to the Mezzanine Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Mezzanine Notes or the Coupons or any alteration of the date or priority of redemption of the Mezzanine Notes (any such modification being referred to below as a "Basic Terms Modification") shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Mezzanine Noteholders as described below. The quorum at any meeting of Mezzanine Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50% of the aggregate Principal Amount Outstanding of the Mezzanine Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Mezzanine Noteholders whatever the aggregate Principal Amount Outstanding of the Mezzanine Notes so held or represented except that, at any meeting the business of which includes the

sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing 75%, or at any adjourned such meeting 25%, or more of the aggregate Principal Amount Outstanding of the Mezzanine Notes then outstanding. The Trust Deed contains provisions limiting the powers of the Mezzanine Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. Except in certain circumstances, the Trust Deed imposes no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding on the Mezzanine Noteholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Mezzanine Noteholders shall be binding on all Mezzanine Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution. An Extraordinary Resolution passed at any meeting of the Class A Noteholders shall be binding on all Mezzanine Noteholders and Couponholders, irrespective of its effect upon such holders or their interests.

The Trustee may agree, without the consent of the Mezzanine Noteholders or Couponholders, (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of the Mezzanine Notes (including these Mezzanine Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Mezzanine Noteholders or (ii) to any modification of the Mezzanine Notes (including these Mezzanine Conditions) or any of the Relevant Documents which, in the Trustee's opinion, is to correct a manifest error or is of a formal, minor or technical nature. The Trustee may also, without the consent of the Mezzanine Noteholders or the Couponholders, determine that any Event of Default or any condition, event or act which with the giving of notice and/or lapse of time and/or the issue of a certificate would constitute an Event of Default shall not, or shall not subject to specified conditions, be treated as such. Any such modification, waiver, authorisation or determination shall be binding on the Mezzanine Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Mezzanine Noteholders in accordance with Mezzanine Condition 13 as soon as practicable thereafter.

#### **15. Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to realise the Security and to obtain repayment of the Mezzanine Notes unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other party to the Relevant Documents without accounting for any profit resulting from such transactions. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

#### **16. Notifications and Other Matters to be Final**

Notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Mezzanine Notes and the Coupons, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Reference Agent, the Trustee, the Administrator, the Principal Paying Agent, the other Paying Agents (if any) and all Mezzanine Noteholders and Couponholders and (subject as aforesaid) no liability to the Issuer, the Administrator or the Mezzanine Noteholders or Couponholders shall attach to the Reference Banks, the Reference Agent, the Issuer, the Administrator or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

#### **17. Governing Law**

The Mezzanine Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law.

## **USE OF PROCEEDS**

The gross proceeds from the issue of the Class A Notes will be £112,500,000 and those from the issue of the Mezzanine Notes will be £10,000,000. These sums will be applied towards payment to NHL and HLDL of the purchase price for the Mortgages to be purchased on the Closing Date pursuant to the Mortgage Sale Agreement, and in establishing the Reserve Fund. Commissions totalling £275,000 will be payable on the issues of the Notes, and those commissions, together with certain other expenses of the issues, will be paid by HLDL on behalf of the Issuer as described in “The Issuer – Fee Letter” below.

## **RATINGS**

The Class A Notes are expected on issue to be assigned a Aaa rating by Moody’s. The Mezzanine Notes are expected on issue to be assigned a Baa2 rating by Moody’s. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

## THE ISSUER

### Introduction

The Issuer was incorporated in England (registered number 2637507) as a private limited company under the Companies Act 1985 on 14th August 1991 under the name Finance for Home Loans (22) Limited. It changed its name to Homeloans (No.1) PLC on 6th December 1995. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The Issuer is a wholly owned subsidiary of Holdings, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE.

The principal objects of the Issuer are set out in clause 4 of its Memorandum of Association and are to raise or borrow money and to grant security over its assets for such purposes, to lend money, to invest in and acquire mortgage loans and other similar investments and to manage or administer mortgage loans.

The Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its registration and re-registration as a public company under the Companies Act 1985, the authorisation and issue of the Class A Notes and the Mezzanine Notes, the agreement to purchase the Mortgages and the matters contemplated in this document, obtaining approval as a qualifying lender under the provisions of the Income and Corporation Taxes Act 1988 relating to the MIRAS Scheme, obtaining a standard licence under the Consumer Credit Act 1974, registering under the Data Protection Act 1984, applying to join the NHL VAT Group and the authorisation and execution of the other documents referred to in this document to which it is a party.

### Directors and Secretary

The executive Directors of the Issuer and their respective business addresses and principal activities are:

<b>Name</b>	<b>Business Address</b>	<b>Principal activities</b>
Nicholas Keen	28 King Street London EC2V 8EH	Finance Director of Holdings and NHL
Richard Shelton	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Solicitor and Company Director of NHL
Anthony Raikes	Cannon Centre 78 Cannon Street London EC4P 5LN	Managing Director of SPV Management Limited
John Saffery	46 Amesbury Road Moseley Birmingham B13 8LE	Chartered Accountant

Nicholas Keen is Chairman of the Issuer. The Secretary of the Issuer is John Gemmell, whose business address is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE.

The Issuer has no employees.

### Management and Activities

Pursuant to the Administration Agreement and a letter agreement dated 14th December 1995 (the "Services Letter"), NHL will, unless and until certain events occur, undertake the day to day management and administration of the business of the Issuer.

The Issuer will covenant to observe certain restrictions on its activities which are detailed in "Description of the Class A Notes, the Global Class A Notes and the Security – Covenants of the Issuer" and "Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security – Covenants of the Issuer" above.

### Fee Letter

NHL has agreed to arrange the issues of the Notes on behalf of the Issuer. In particular, NHL has negotiated the terms of the issues of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Managers. HLDL will pay, on behalf of the Issuer, the combined management and underwriting commissions referred to under "Subscription and Sale" below and certain other expenses payable by the Issuer in connection with the issues of the Class A Notes and of the Mezzanine Notes. The Issuer has agreed under the Fee Letter dated 14th December 1995 that it will pay NHL an arrangement fee of £490,000 and that it will reimburse HLDL for these commissions and expenses, in each case, in quarterly instalments on or after the seventh day after each Interest Payment Date over four years from the date of issue of the Notes. Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum

above LIBOR payable quarterly in arrear on each Interest Payment Date. Amounts owing to NHL and HLDL under the Fee Letter will be subordinated in the manner described in “Summary – Priority of Payments” above.

#### **Subordinated Loan Facility from NHL**

By the NHL Subordinated Loan Agreement (which is made between NHL, the Issuer and the Trustee and dated 14th December 1995) NHL has agreed to make available to the Issuer a loan facility of up to £2,500,000, under which an amount will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund. Thereafter further drawings may be made, with the prior consent of NHL, by the Issuer for the purpose of establishing or increasing the Shortfall Fund. NHL may lend further sums to the Issuer under the NHL Subordinated Loan Agreement to be used by the Issuer to purchase interest rate caps and related guarantees (where required) in respect of Converted Mortgages. The Issuer may from time to time borrow further sums from NHL or others on the terms of the NHL Subordinated Loan Agreement. Amounts owing to NHL and any Subordinated Lenders under the NHL Subordinated Loan Agreement will be subordinated in the manner described in “Summary – Priority of Payments” above.

Interest under the NHL Subordinated Loan Agreement is payable by the Issuer quarterly on or after the seventh day after each Interest Payment Date commencing with the Interest Payment Date falling in April 1996 on the amount of the loan at the rate of 4% per annum above LIBOR. Principal will only be repayable on the earlier of (i) the day following the last Interest Payment Date falling in October 2030 and (ii) the first day on which there are no Class A Notes and no Mezzanine Notes outstanding. Payments of interest under the NHL Subordinated Loan Agreement may only be made by the Issuer if, after applying its net income (other than principal receipts in respect of the Mortgages) in making a number of other payments or provisions, the Issuer still has sufficient funds for the purpose as more particularly described in “Summary – Priority of Payments” above.

#### **Loan Stock**

The Notes will be issued simultaneously with the Convertible Cumulative Secured Subordinated Loan Stock 2030 of the Issuer (the “Loan Stock”) the terms and conditions of which will be set out in an instrument to be dated the Closing Date (the “Instrument”). The initial tranche of Loan Stock (which will be of up to £4,800,000) nominal amount will be subscribed for by NHL. The Loan Stock will bear interest at a rate of 4% per annum above LIBOR, payable with effect from the Closing Date, quarterly in arrear on each Interest Payment Date.

No payment in cash of principal in respect of, or purchase by the Issuer of, the Loan Stock will be made while any Note remains outstanding. The Loan Stock will be convertible into ordinary shares of the Issuer at any time at the option of the Issuer, and at any time when no Note is outstanding at the option of the Stockholder, at a conversion rate of one ordinary share for each £1 nominal amount of Loan Stock converted and the Loan Stock will automatically be converted as aforesaid if an Enforcement Notice is validly served. The Issuer may elect to defer the whole or any part of the interest due on the Loan Stock on any Interest Payment Date (without any interest accruing thereon) until the last Interest Payment Date in its then current financial period and may elect to satisfy its obligation to pay interest due and payable on the Loan Stock by the issue of additional Loan Stock credited as fully paid.

The Notes and the Loan Stock will share the same security, but the Loan Stock will be subordinated to the Notes in point of payment and the Notes will rank in priority to the Loan Stock in the event of the security being enforced.

#### **The Reserve Fund**

The Issuer will be required to make Mandatory Further Advances on a regular basis on Stabilised Rate Mortgages and may be required to do so on certain Converted Mortgages. The Issuer expects to be able to utilise principal moneys received in respect of the Mortgages to make such Mandatory Further Advances. However, to the extent that such principal moneys are insufficient for this purpose, the Issuer expects to be able to draw on the Reserve Fund.

The Reserve Fund will be established on the Closing Date using part of the proceeds of the issues of the Class A Notes and the Mezzanine Notes. The amount of the Reserve Fund will take account of the interest which will accrue on the amounts of deferred interest before the borrowers commence paying interest at the standard mortgage rate. The HLDL Mortgages in the Mortgage Pool may include Mortgages on which a portion of the original amount advanced to the borrower is being retained, subject to completion of construction or refurbishment of the Property. The total amount of these retentions will also be held in the Reserve Fund. The Issuer expects to be able to draw on the Reserve Fund when releasing any amount so retained to the borrower.

The Reserve Fund will be deposited in the Escrow Account with NatWest.

In cases where principal receipts on Mortgages are insufficient to fund Mandatory Further Advances, either an immediate drawing may be made from the Reserve Fund, or a drawing may be made from the Transaction Account (to the extent that there are sufficient revenue receipts therein or an amount of the

First Loss Fund or of any Shortfall Fund is available to be used) and used to make the relevant Mandatory Further Advance provided that the amount (if any) of the Mandatory Further Advance is matched by sums standing to the credit of the Reserve Fund (and not previously appropriated to reimburse the Transaction Account) and on the next following Interest Payment Date a drawing is made from the Reserve Fund to reimburse the Transaction Account.

Appropriate sums (“final releases”, which do not include drawings made to reimburse the Transaction Account as described above) will be released to the Issuer from the Reserve Fund to form part of Available Redemption Funds as and when such sums are no longer needed, for example, when any of the relevant Mortgages is redeemed or the period expires during which Mandatory Further Advances are required to be made on any of the relevant Mortgages or the Mandatory Further Advances in question have been funded out of principal receipts on the Mortgages.

Interest earned on the Reserve Fund will be released to the Transaction Account and will form part of the Issuer’s revenue.

#### **Swap Agreement**

Under the Swap Agreement the Issuer will agree to pay the Swap Counterparty a fixed rate quarterly on each Interest Payment Date. The Swap Counterparty will agree to pay to the Issuer quarterly amounts on each Interest Payment Date calculated by reference to LIBOR. The Swap Agreement will provide for a net payment to be made by either the Issuer or the Counterparty, as the case may be, in respect of the swap transaction. Termination of the Swap Agreement may occur independently of any event of default. This may give rise to a termination payment due either to or from the Issuer which will rank in priority to payments on the Notes, as more particularly described in “Summary – Priority of Payments” above.

#### **Interest Rate Cap Agreements and Cap Providers**

Certain Fixed Rate Mortgages purchased by the Issuer on the Closing Date will be hedged by way of interest rate caps (“Caps”) which will initially be made available to the Issuer by means of Cap agreements entered into with one or more counterparties (“Cap Providers”). In the event that LIBOR (as determined in accordance with the relevant agreement) exceeds the strike rate agreed in respect of each particular Cap, the Cap Provider will be required to make a payment equal to the difference between LIBOR (as so determined) and the strike rate calculated on the notional principal amount of such Cap for the relevant period. Such Caps may be with any bank or financial institution. It is expected that all Caps will initially be made available to the Issuer by Morgan Guaranty Trust Company of New York. After payment of or provision for items (i) to (ix) in “Summary – Priority of Payments” above, the Issuer may reserve funds on a Principal Determination Date to enable it to purchase Caps (and related guarantees) in the succeeding Interest Period.

Except as mentioned in the previous paragraph, under no circumstances will the Issuer be liable to make any payment to the provider of any Cap.

The Issuer will be required to obtain new Caps covering any Converted Mortgages which are Fixed Rate Mortgages.

Each Cap Provider will, on the date on which it makes Caps available to the Issuer, have a rating for its long term or short term debt obligations sufficient to maintain the then ratings of the Class A Notes and the Mezzanine Notes unless that Cap is guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Class A Notes and the Mezzanine Notes.

#### **Capitalisation**

The capitalisation of the Issuer as at the date of this document, adjusted for the Class A Notes and the Mezzanine Notes now being issued and the Loan Stock now being created, is as follows:

<b>Share capital</b>	<b>£</b>
Authorised	
50,000 Ordinary Shares of £1 each . . . . .	
Issued	
50,000 Ordinary Shares of £1 each (2 fully paid and 49,998 25p paid) . . . . .	12,501.50
<b>Loan capital</b>	
£112,500,000 Class A Mortgage Backed Floating Rate Notes Due 2030 . . . . . (now being issued)	112,500,000.00
£10,000,000 Mezzanine Mortgage Backed Floating Rate Notes Due 2030 . . . . . (now being issued)	10,000,000.00
Convertible Cumulative Secured Subordinated Loan Stock 2030 (loan capital created).	4,800,000.00 <sup>(1)</sup>
	<hr/>
Total capitalisation . . . . .	<u>127,312,501.50</u>

The current financial period of the Issuer will end on 14th November 1996. The balance sheet of the Issuer as at 30th September 1995 is set out in “General Information” below.

*Note:*

(1) This figure is illustrative only. The Loan Stock will be issued on the Closing Date in an amount sufficient to satisfy the balance of the consideration payable for the Mortgages purchased by the Issuer on such date.



## THE NHL VAT GROUP

The Issuer is expected to become a member of the NHL VAT Group (consisting of NHL and certain of its related companies, as more particularly described in the Administration Agreement). At present, NHL as representative member of the NHL VAT Group is the entity primarily responsible for the VAT affairs of the NHL VAT Group. However, for such period as the Issuer may be a member of the NHL VAT Group it will be, under current VAT legislation, jointly and severally liable with the other members of the NHL VAT Group for any amount of VAT due from the NHL VAT Group to H.M. Customs & Excise. NHL has established a VAT fund held in an account at National Westminster Bank PLC (the "VAT Account") to be used to pay amounts owing to H.M. Customs & Excise if the company primarily responsible fails to pay the relevant amount. Morgan Guaranty Trust Company of New York is the trustee of the fund which currently amounts to approximately £122,000. The Issuer will on the Closing Date become one of the beneficiaries of the trust over the VAT fund (the "VAT Declaration of Trust").

## **MORGAN GUARANTY TRUST COMPANY OF NEW YORK**

Morgan Guaranty Trust Company of New York (“Morgan Guaranty”) is a wholly owned subsidiary and the principal asset of J.P. Morgan & Co. Incorporated (“Morgan”), a Delaware corporation whose principal office is located in New York, New York. Morgan Guaranty is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities. As of 30th September 1995, Morgan Guaranty and its subsidiaries had total assets of U.S.\$133.5 billion, total net loans of U.S.\$21.2 billion, total deposits of U.S.\$47.8 billion and stockholders’ equity of U.S.\$8.2 billion. As of 31st December 1994, Morgan Guaranty and its subsidiaries had total assets of U.S.\$118.7 billion, total net loans of U.S.\$18.4 billion, total deposits of U.S.\$44.5 billion and stockholders’ equity of U.S.\$7.3 billion.

The consolidated statement of condition of Morgan Guaranty as of 30th September 1995, is set forth on page 8 of Exhibit 99 to Form 8-K dated 12th October 1995, as filed by Morgan with the Securities and Exchange Commission. Morgan Guaranty will provide without charge on request, a copy of the Form 8-K referred to above. Written requests should be directed to: Morgan Guaranty Trust Company of New York, 60 Wall Street, New York, New York 10260-0060, Attention: Office of the Secretary.

Note: The information contained in this section “Morgan Guaranty Trust Company of New York” relates to and has been obtained from Morgan Guaranty Trust Company of New York. The delivery of the Offering Circular shall not create any implication that there has been no change in the affairs of Morgan Guaranty Trust Company of New York since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

## THE MORTGAGES

### Origination of the Mortgages

All the Mortgages forming part of the initial security for the Notes (referred in this section as the “Mortgages”) except for the Local Authority Mortgages (as defined below) were originated by NHL or HLDL. NHL is a public company, HLDL is a private company and both are wholly owned subsidiaries of Holdings, the ordinary share capital of which is listed on the London Stock Exchange. NHL’s principal activities are to invest in mortgage loans secured on residential or other properties within the British Isles or elsewhere, to acquire mortgage loans from third parties and to manage or administer mortgage loan portfolios for third parties. HLDL’s principal activities are to invest in mortgage loans secured on residential or other properties within the British Isles or elsewhere and to acquire mortgage loans from third parties.

### Introduction of Mortgage Business

#### *Sources of NHL Lending*

NHL has attracted mortgage lending business primarily through its association with a panel of life assurance companies. In addition, a small number of mortgage applications have been accepted directly from members of the public or via an approved panel of mortgage brokers.

#### *Sources of HLDL Lending*

HLDL derives its mortgage lending business through intermediaries and does not normally accept applications directly from members of the public.

### Information on the Mortgages

#### *General*

The Mortgages forming part of the initial security for the Notes all had original maturities of between five years and 35 years. No Mortgage falls to be repaid later than October 2028.

The Mortgages will comprise standard floating rate mortgages and other types of mortgages described below. All the Mortgages will consist of mortgage loans which, save in respect of certain of the Excluded Mortgages and the Local Authority Mortgages, met certain lending criteria, and are secured by charges over freehold or leasehold properties located in England or Wales. The Issuer will have the benefit of warranties by NHL and HLDL, as the case may be, in relation to the Mortgages, including warranties in relation to the lending criteria applied in advancing the loans, save in respect of certain of the Excluded Mortgages, the NHL Shared Ownership Mortgages and the Local Authority Mortgages as to which only certain warranties will be given.

The properties which are the subject of the Mortgages (the “Properties”) are residential properties located in England or Wales and are either freehold or leasehold (in which case the lease has at least 25 years to run beyond the term of the relevant Mortgage).

Other than in respect of certain of the Local Authority Mortgages and certain of the NHL Shared Ownership Mortgages, before an initial advance was made by NHL or HLDL to a borrower such borrower was required to enter into a mortgage deed which incorporates NHL’s (or HLDL’s, as the case may be) standard mortgage conditions (the “Mortgage Conditions”). These contain various covenants and undertakings by the borrower including covenants to make the monthly interest payments as notified to the borrower and to pay premiums on any endowment life assurance policy or policies (except in relation to Repayment and Interest-only Mortgages) and buildings insurance policies effected in relation to the Property. The Mortgage Conditions also contain provisions for the usual remedies of a mortgagee in the event of default by the borrower.

The Income and Corporation Taxes Act 1988 provides that a person who pays certain categories of loan interest on which tax relief is due will normally be entitled to deduct and retain from his payments a sum equal to 15% of the loan interest payable on up to the first £30,000 of the amount of the loan. The Inland Revenue will repay to the lender an amount equal to the amount of the deduction made. In practice, NHL and HLDL inform borrowers of the net amount of their monthly payments although the borrowers covenant to pay the gross amount.

#### *Repayment Types*

Certain Mortgages will be mortgages under which monthly instalments covering both interest and principal are required to be paid by the borrower (“Repayment Mortgages”). The payment schedule applicable to such a Mortgage on origination is structured so that the principal element of the instalments is small in the early years but increases in size during the life of the Mortgage until full repayment by maturity. NHL does not require borrowers under Repayment Mortgages to arrange life assurance or pension cover. HLDL normally requires term life assurance to be arranged in connection with Repayment Mortgages.

Some Mortgages, when originated, provided for interest only to be paid monthly during their term, with no scheduled payment of principal prior to maturity (“Interest-only Mortgages”). Life assurance or pension cover may not have been required by NHL in connection with Interest-only Mortgages. HLDL normally requires term life assurance to be arranged in connection with Interest-only Mortgages.

Each Mortgage which, when originated, was not a Repayment Mortgage or an Interest-only Mortgage will be either endowment-linked or pension-linked. All endowment-linked Mortgages, when originated, will have had the benefit of a collateral charge over one or more life assurance policies or one or more life assurance policies will have been deposited with the mortgagee. These policies were expected, at the time of the original advance of the relevant Mortgage, in aggregate, to provide amounts sufficient to pay off the principal balance of the Mortgage (excluding certain further advances, fees, costs and expenses) in the event of the death of the borrower(s) prior to maturity of the Mortgage and were expected, at the time of origination, on the basis of criteria generally applied by mortgage lenders in the United Kingdom, to provide sums at the maturity of the policies sufficient to pay in full the principal amount secured by the Mortgage (excluding certain further advances, fees, costs and expenses). The borrower may not have been making payment in full or on time of the premium(s) due on any such policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder. In certain cases the policy may have been surrendered but not necessarily in return for a cash payment and any cash received by the borrower may not have been applied in paying amounts due under the Mortgage.

Mortgages which, when originated, were pension-linked Mortgages, will, when originated, have had the benefit of a collateral charge over one or more life assurance policies under which the assured sums would in aggregate provide amounts sufficient to pay off the principal balance of the Mortgage (excluding certain further advances, fees, costs and expenses) in the event of the death of the borrower(s) prior to maturity of the Mortgage. However, neither the Issuer nor the Trustee may take any security interest over a pension policy. Similar considerations to those noted above in respect of the maturity of life assurance policies apply in respect of pension policies.

### **Particular Mortgage Types**

#### *Right-to-Buy*

Some of the NHL Mortgages (“Right-to-Buy Mortgages”) relate to property purchased by borrowers from a local authority pursuant to statutory entitlement under “right-to-buy” legislation, consolidated in the Housing Act 1985.

#### *NHL Shared Ownership Mortgages*

Other NHL Mortgages (“NHL Shared Ownership Mortgages”) relate to shared ownership leases under which the borrower initially acquired only a share in the property and continues to pay a rent calculated by reference to the value of the share in the property which he has not yet acquired. The shared ownership leases contain provisions for the acquisition by the borrower of additional shares in the property and potentially the acquisition of the landlord’s freehold or superior leasehold interest. Some of the shared ownership leases securing NHL Shared Ownership Mortgages were granted to tenants exercising a right to acquire such a shared ownership lease, conferred by the “right-to-buy” legislation, whilst other leases were granted by Housing Associations to provide lower cost home ownership.

Shared ownership leases create a legal estate, as any other lease, over which a legal charge may be taken and the usual mortgagee’s remedies may be applied, for example, the sale of the lease. However on the sale of the lease, in some cases and under certain circumstances, the landlord has the right to nominate the purchaser and, if the landlord exercises his right, the purchase price is fixed at a figure no greater than the market value of the share in the property already owned. Both the nomination and valuation procedures may cause delay. In practice therefore the preferable course for a mortgagee is likely to be to purchase the outstanding share in the property when it exercises its power of sale and in many cases the proceeds of sale may be used to fund that acquisition so that the landlord makes a simultaneous transfer of the freehold or superior leasehold interest to the purchaser.

NHL approved a number of different forms of shared ownership lease for lending purposes which give rise to a number of considerations to be taken into account by a mortgagee upon enforcement. These are:

- (i) in some cases the mortgagee is required to offer the lease back to the landlord before exercising the right to acquire the outstanding share, at a price prescribed by the lease which is limited to the amount of the principal (not including any capitalised interest) outstanding to the mortgagee plus up to twelve months’ unpaid interest and certain associated costs;
- (ii) in some cases the provisions relating to the acquisition of the outstanding shares, and ultimately the freehold or superior leasehold interest, require the mortgagee to discharge arrears of rent and other sums due under the lease before the acquisition of that share can proceed so that the mortgagee would have to discharge those arrears from its own funds;

(iii) in some cases the tenant is obliged to acquire the outstanding share by a specified payment date and a mortgagee in possession on that date would be obliged to make that payment from its own funds in order to preserve its security; and

(iv) in some cases the lease provides that where the property has been sold at a profit within a specified period after the acquisition of the final outstanding share, a further payment (reflecting the profit element) is payable to the landlord.

The forms of shared ownership leases approved by HLDL for lending purposes are based on the model forms of shared ownership leases promulgated by the Housing Corporation, to which the considerations listed in (i) through (iv) above are applicable.

### **Local Authority Mortgages**

Local Authority Mortgages consist principally of mortgages originated by various local authorities in England and Wales and the Housing Corporation, to permit residential borrowers to fund council property purchases. These mortgages were acquired by NHL during the mid 1980's and NHL is now the legal owner of them. There are certain considerations in relation to these mortgages:

(i) in some cases the original mortgage conditions imposed by the local authority continue to apply;

(ii) NHL agreed with the borrowers when it acquired these mortgages that interest would always be charged on the same basis (i.e. a rate of 0.25% below the standard national rate declared by the Secretary of State pursuant to section 110 of the Housing Act 1980).

Other Local Authority Mortgages are mortgages originated by NHL in respect of which interest is charged on the basis described in (ii) above.

### **Particular NHL Mortgage Types**

Each Non-standard NHL Mortgage may have been, on origination, or may become subsequently, any one of, or a combination of, the following:

(i) a Blue Chip Mortgage, under which the borrower is required to pay interest at a fixed margin above three-month LIBOR determined quarterly;

(ii) a Fixed Rate Mortgage, under which for a fixed initial period or periods the rate of interest payable by the borrower is not capable of being reset monthly or quarterly at will by the Issuer or the Administrator but the borrower is required to pay interest at a fixed rate or a series of fixed rates. After the fixed initial period(s) the mortgage rate chargeable becomes the rate applicable to NHL's Standard Mortgages and can be reset normally;

(iii) a Stabilised Rate Mortgage, under which the borrower is required to pay interest during an availability period at a fixed rate and NHL agrees to credit the borrower's account each month with an amount by which interest calculated at the actual charging rate exceeds interest calculated at such fixed rate. NHL may agree to permit the borrower to pay interest at the charging rate if this is lower than the relevant fixed rate at the time;

(iv) A Staff Mortgage, made to a member of current staff of either NHL or Holdings. Most of the Staff Mortgages pay a rate of interest equal to the lower of 5%, or three-month LIBOR determined quarterly divided by two. The other Staff Mortgages require the borrower to pay interest at a fixed margin above three-month LIBOR determined quarterly.

Interest on the NHL Mortgages is payable monthly at rates which are currently set by NHL (subject to the restrictions mentioned above) and, except in certain limited circumstances in which the Trustee or Barclays will be entitled to take over this function, will continue to be set by NHL as Administrator on behalf of the Issuer and the Trustee after the sale and sub-charge of the Mortgages.

### **Particular HLDL Mortgage Types**

Each Non-standard HLDL Mortgage may have been, on origination, or become subsequently any one of, or a combination of, the following:

(i) a Variable Discount Mortgage under which during a specified discount period running from the date of the advance and ending on the date stated in the Mortgage Conditions of the mortgage HLDL agrees to accept interest payments at a stated percentage below the rate which would have been applicable to its Standard Mortgages; or

(ii) a Premier Rate Mortgage under which HLDL shall set the interest rate at the lowest rate possible taking into account its required return and the costs to it of making, funding and administering the loan.

In some cases the interest rate is at a fixed margin of over 0.75% below that applicable to HLDL's Standard Mortgages. This rate is concessionary and may be withdrawn at HLDL's option in the event of a breach of any of the borrower's obligations under the mortgage; or

(iii) a Fixed Rate Mortgage under which for a fixed initial period or periods the rate of interest payable by the borrower is not capable of being reset monthly or quarterly at will by the Issuer or the Administrator but the borrower is required to pay interest at a fixed rate or a series of fixed rates. After the fixed initial period(s) the mortgage rate chargeable becomes the rate applicable to HLDL's Standard Mortgages and can be reset normally; or

(iv) a LIBOR-Linked Mortgage, under which the borrower is required to pay interest at a fixed margin above three-month LIBOR determined quarterly.

Standard Mortgages and Variable Discount Mortgages originated by HLDL may also include a "flexible repayment" or "index linked" provision pursuant to which no principal need be included in the payments made by the borrower up to the first anniversary of the date of the advance. At the first, and each subsequent anniversary, the borrower may select the amount of principal to be included in repayments for the next year which must be at least the amount which if applied uniformly to repayments throughout the mortgage term would ensure that the Mortgage is repaid by the end of that term.

Certain HLDL Standard Mortgages, Variable Discount Mortgages and Fixed Rate Mortgages may also include a cashback concession under which the borrower is paid a percentage of the amount advanced in a single lump sum payment. Payment of the cashback sum is dependent on the borrower having made the first full payment due on the Mortgage.

Interest on the HLDL Mortgages is payable monthly at rates which are currently set by or on behalf of HLDL (subject to the restrictions mentioned above) and, except in certain limited circumstances in which the Trustee or Barclays will be entitled to take over this function, will be set by NHL as Administrator on behalf of the Issuer and the Trustee after the sale and sub-charge of the Mortgages.

#### **Redemption Provisions – NHL Mortgages**

Other than in respect of certain Local Authority Mortgages (which restrict the right of the borrower to repay to certain days) each NHL Mortgage provides that the borrower may repay principal at any time without prior notice. Except in the case of Fixed Rate Mortgages and Stabilised Rate Mortgages, on redemption the borrower is required to pay the equivalent of one month's interest if repayment takes place within two years of completion of the Mortgage (unless a new mortgage is taken out with NHL or the requirement is otherwise waived). If a Fixed Rate Mortgage is redeemed while subject to a fixed rate of interest, the borrower is required to pay the equivalent of three months' interest or in some cases a mark-to-market penalty applies. If a Stabilised Rate Mortgage is redeemed while subject to a stabilised rate of interest or, as the case may be, while the relevant percentage discount applies, the borrower is required to pay the equivalent of three months' interest.

#### **Redemption Provisions – HLDL Mortgages**

The HLDL Mortgages provide that the borrower may prepay principal at any time without prior notice. The period within which a prepayment of principal gives rise to an obligation to pay an additional sum, and the size of that sum, are specified in the relevant Mortgage Conditions.

With Standard Mortgages without a cash back concession, LIBOR-Linked Mortgages and Premier Rate Mortgages, if the borrower prepays principal within three years of completion of the Mortgage, the borrower is required to pay the equivalent of one month's interest, at the then prevailing charging rate, on the amount prepaid.

Certain of the Fixed Rate Mortgages have prepayment provisions similar to those for the LIBOR-Linked and Premier Rate Mortgages. For other Fixed Rate Mortgages, if the borrower prepays any principal within four (or in certain cases five) years of completion of the Mortgage, the borrower must pay whichever is the lesser of:

(i) the proper cost to HLDL of the borrower making the prepayment (taking into account the cost of making, funding and administering the loan as well as any return foregone by HLDL or payment HLDL is required to make); and

(ii) an amount equivalent to between one and six months' interest (depending upon the actual date of repayment), at the then prevailing charging rate, on the amount prepaid.

#### **Mortgage Indemnity Guarantee Insurance – NHL Mortgages**

Save in respect of certain of the Excluded Mortgages, certain of the Local Authority Mortgages and certain NHL Shared Ownership Mortgages, an advance of over 75% of the lower of the value of the Property for security purposes in the opinion of a valuer approved by NHL and the purchase price, where relevant, was

only made by NHL if supported by the taking out of mortgage guarantee indemnity insurance. Such an advance did not exceed a maximum of 100% of the relevant value or price, as the case may be, excluding (for these purposes) the premium payable in respect of the mortgage guarantee indemnity insurance and other fees charged to the borrower. The single premium payable for this insurance was due at the date of completion of the Mortgage (or, in the case of a Discretionary Further Advance, at the date of completion of that Discretionary Further Advance) and it was usual for this premium to be added to the relevant advance. The mortgage guarantee indemnity insurance outstanding in relation to the NHL Mortgages has been underwritten by Sun Alliance or Legal & General.

#### **Mortgage Indemnity Guarantee Insurance – HLDL Mortgages**

Where the amount of an initial advance by HLDL (excluding any additional security fee and certain other fees added to the amount of the initial advance) when aggregated with any further advances made by HLDL exceeded 70% of the lower of the purchase price, where relevant, and the value of the Property for security purposes in the opinion of a valuer approved by HLDL, HLDL has the benefit of mortgage indemnity insurance written by Lloyd's of London. In such cases, a single additional security fee was payable by the borrower at the time of the advance and was normally added to the amount of the advance.

#### **Acquisition of Mortgages**

Pursuant to the Mortgage Sale Agreement, NHL has agreed to purchase certain Mortgages from Homer (1), NHL (3) Securities and HLDF on the Closing Date. The Issuer has, in turn, agreed with NHL to purchase these Mortgages and other Mortgages currently owned by NHL. Pursuant to the Mortgage Sale Agreement, HLDL has also agreed to purchase certain Mortgages from HLDF on the Closing Date. The Issuer has also in turn agreed to purchase those Mortgages from HLDL. All of the Mortgages to be purchased by the Issuer on the Closing Date will be drawn from a larger number of mortgage loans in respect of which information is given in this document (see "The Provisional Mortgage Pool" below).

The purchase consideration in respect of the Mortgages purchased on the Closing Date will be paid on such date.

The Mortgage Sale Agreement provides that, on the Closing Date, NHL will receive transfers of the Mortgages which it has agreed to acquire from Homer (1), NHL (3) Securities and HLDF, and HLDL will receive transfers of the Mortgages which it has agreed to acquire from HLDF (in each case, together with transfers of the security over the relative life assurance policies and all other rights and interests agreed to be sold to it). The relevant Mortgages will be identified in annexures to the deeds of transfer.

Simultaneously, NHL and HLDL will each deliver to the Issuer transfers of all its right, title and interest in and to all the Mortgages then to be sold to the Issuer together with transfers of the security over the life assurance policies and all other rights and interests agreed to be sold to the Issuer. The relevant Mortgages will be identified in annexures to these deeds of transfer.

Notice of the interests of the Issuer and the Trustee in the Mortgages in the Mortgage Pool will be given to the borrowers as soon as practicable, but notice to the life assurance companies in respect of the security over the life assurance policies will only be given in certain limited circumstances set out in the Administration Agreement.

In respect of the Mortgages in the Mortgage Pool, the transfers to NHL and on to the Issuer and to HLDL and on to the Issuer will operate as legal transfers in respect of Mortgages over unregistered land but, for the remainder, they will take effect in equity only. Save in the circumstances set out in the Administration Agreement, neither the Issuer nor the Trustee will apply to H.M. Land Registry to register or record the Issuer as legal owner thereof.

The title deeds to the Properties which are subject to the Mortgages purchased on the Closing Date will be held to the Trustee's order on terms that the person holding them may release them to third parties, subject to conditions, but without reference to the Trustee.

Neither NHL nor HLDL nor the Issuer nor the Trustee has made or caused to be made (or will make or cause to be made) on its behalf in relation to the Mortgages purchased on the Closing Date any of the enquiries, searches or investigations which a prudent purchaser of the relevant security would normally make, other than (in the case of the Issuer only) a search, prior to completion of the purchase by the Issuer of the Mortgages on the Closing Date, against NHL, HLDL, HLDF, Homer (1) and NHL (3) Securities in the relevant file held by the Registrar of Companies. Neither the Issuer nor the Trustee has made nor will make any enquiry, search or investigation prior to the making of any Mandatory Further Advance or Discretionary Further Advance or at any time in relation to compliance by NHL, HLDL, the Administrator or any other person with any applicable lending guidelines, criteria or procedures or the adequacy thereof or with the provisions of the Mortgage Sale Agreement, the Administration Agreement

or the Deed of Charge or with any applicable laws or in relation to the execution, legality, validity, perfection, adequacy or enforceability of any Mortgages purchased on the Closing Date or any other security, including that over life assurance policies, or the other insurance contracts relating to the Properties and the Mortgages referred to herein. In relation to all of the foregoing matters and the circumstances in which advances were made to borrowers prior to the purchase by the Issuer of the relevant Mortgages, both the Issuer and the Trustee will rely entirely on the warranties given by NHL and HLDL to the Issuer and the Trustee contained in the Mortgage Sale Agreement. These include warranties in respect of Mortgages to be purchased on the Closing Date as to the following: that the aggregate principal balances outstanding on the Mortgages to be purchased on the Closing Date will at the Closing Date be not less than £115,000,000, that each such Mortgage constitutes a valid and binding obligation of the borrower and, subject to registrations, is a valid and subsisting first legal mortgage except for certain further advances which are regulated under the Consumer Credit Act 1974 and which are secured by way of second charge over the relevant Property where the Issuer also purchases on the Closing Date the first charge over such Property; as to the procedures followed prior to completion of the relevant Mortgage; as to the terms upon which each such Mortgage was granted; that the mortgage guarantee indemnity insurance policies are in full force and effect save in respect of certain of the Excluded Mortgages and certain of the Local Authority Mortgages specified in “The Mortgages - Information on the Mortgages” above; and as to the satisfaction of requirements of the Inland Revenue in relation to interest relief on the Mortgages. The Excluded Mortgages and the Local Authority Mortgages are excluded from certain of the warranties given by NHL.

The Class A Subscription Agreement and the Mezzanine Subscription Agreement referred to in “Subscription and Sale” below contain warranties by NHL (in relation to it and the NHL Mortgages sold by it) and by HLDL (in relation to it and the HLDL Mortgages sold by it) to the effect that the information in this Offering Circular with regard to the Mortgages to be purchased by the Issuer on the Closing Date, the Properties, the life assurance policies, the other insurance contracts relating to the Properties and the Mortgages and NHL and its business and HLDL and its business is true and accurate in all material respects.

#### **Further Advances**

In all cases where a Mandatory Further Advance is to be made, the Issuer will first fund such Mandatory Further Advance from the principal moneys then held by it referred to in paragraph (a) of the definition of Available Redemption Funds (see “Summary – Mandatory Redemption in Part”). If, and to the extent that, at any particular time such principal moneys are insufficient to enable the Issuer to fund such Mandatory Further Advances, the Issuer will draw on the Reserve Fund. See “The Issuer – The Reserve Fund” above.

No Mandatory Further Advance may be made to a borrower if NHL has notice that the relevant borrower is in breach of the relevant Mortgage Conditions.

The Issuer may, at its discretion but subject to certain conditions in the Administration Agreement and provided that there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date, decide to make a Discretionary Further Advance on the request of a borrower. Such Discretionary Further Advance may only be made if it is secured on the relevant Property owned by the borrower but subject to the Mortgage. In addition, the Issuer may make a Discretionary Further Advance to a borrower as part of its arrears and default procedures by capitalising certain outstanding arrears of interest payable by a borrower. The capitalisation of outstanding arrears constitutes a capitalisation for these purposes if the capitalised amount is added to the principal balance of the Mortgage and the relevant borrower’s arrears are discharged. Discretionary Further Advances on the Mortgages in the Mortgage Pool (other than by way of capitalisation of arrears) are subject to an aggregate cumulative limit of £20,000,000.

In all cases where a Discretionary Further Advance is to be made, the Issuer may use principal moneys referred to in paragraph (a) of the definition of Available Redemption Funds but only after it has met Mandatory Further Advances required to be made by it at that time.



## NHL LENDING GUIDELINES

Other than in the case of those Local Authority Mortgages which were not originated by NHL, the guidelines provided by NHL to help introducers of mortgage loan business to NHL to assess the suitability of a potential borrower and of the security offered set a standard in respect of the NHL Mortgages in the Provisional Mortgage Pool which, at the time any of the NHL Mortgages included in the Provisional Mortgage Pool was originated, was not substantially different from the following:

### **Types of Property**

Traditionally built owner-occupied residential properties which are either freehold or leasehold and, in the case of leasehold properties, with at least 25 years remaining on the lease at the end of the mortgage term.

### **Amount of Mortgage**

Up to £500,000, subject, generally, to a maximum (excluding any mortgage guarantee indemnity insurance premium and certain other fees) of 100% of the market valuation or purchase price, where relevant, whichever is the lower or, in the case of a Right-to-Buy Mortgage, 75% of the market value (excluding certain fees). This maximum is reduced to 80% (or in certain cases 75%) for the initial loan for a Stabilised Rate Mortgage (excluding mortgage guarantee indemnity insurance premium and fees). Mortgage guarantee indemnity insurance is required in all cases where the advance exceeds 75% of the market valuation or purchase price, where relevant, whichever is the lower (or, in the case of a Right-to-Buy Mortgage, 75% of the market value) (excluding, in each case, certain fees which are added to the advance), and the single premium is added to the amount of the advance. Where appropriate, an advance, for the purposes of calculating the indemnity premium includes projected capitalised interest and endowment premiums.

### **Status**

A search is made in all cases which will give details of any County Court judgments or defaults registered against the applicant and may give details of large credit commitments of the applicant.

For advances which do not exceed 75% of the market valuation and the purchase price (or, in the case of a Right-to-Buy Mortgage, 75% of the market value), where relevant, (excluding certain fees) whichever is the lower, no further credit references are sought.

Where the advance exceeds 75% of the market valuation and the purchase price (or, in the case of a Right-to-Buy Mortgage, 75% of the market value), where relevant, (excluding certain fees) whichever is the lower, and the borrower is a sole trader or in partnership, the borrower provides either an accountant's certificate stating the last three years' drawings and net profit or, if the borrower has only been trading for two years, an accountant's certificate and copies of an accountant's projection for the third year.

If the borrower owns over 25% of the employing company's shares, a letter is required from the company's auditors confirming the borrower's income for the previous three financial years or, if the borrower has only been employed for two years, an accountant's certificate and copies of an accountant's projection for the third year.

Where a borrower is employed and the advance exceeds 75% of the market valuation or purchase price, where relevant, (excluding certain fees) whichever is lower, his latest P60 and last three wage slips or an employer's reference are taken as proof of income.

### **Type of Loan**

All Mortgages (other than Repayment Mortgages and Interest-only Mortgages) are endowment mortgages or pension-linked mortgages (under which payments of interest only are made by the borrowers). The related life policy or policies have (in aggregate) a minimum death benefit at least equal to the initial principal amount advanced under the relevant Mortgage and any scheduled further advances of deferred interest or endowment premiums (excluding any mortgage guarantee indemnity insurance premium and certain other fees). Discretionary Further Advances and further advances under certain Mortgages which have or have had deferred payment facilities may, however, not be covered by life insurance.

### **Repayment Term**

Between five years and 35 years.

### **Valuation of Property**

A valuation is required by a qualified valuer approved by NHL to ascertain the current market value, reinstatement value, type of construction and any defects.

### **Income Multiple**

Up to three times the annual income of the primary wage earner plus all the annual income of one further party to the loan. In the case of joint borrowers, where both are over 21 years old, up to two and a half times the joint income. The income multiples do not take into account the mortgage guarantee insurance premiums, mandatory further advances and certain other fees. In the case of Mortgages with the benefit of a guarantee, the relevant income may be that of the surety rather than the mortgagor.

### **Endowment Life Assurance**

A range of endowment life assurance policies are acceptable to be deposited with, or assigned to, NHL by way of security for endowment Mortgages.

New policies from one of NHL's panel of life offices or existing policies from any U.K. registered life assurance company are acceptable.

Policies are required to:

1. mature at or no later than six months after the maturity of the mortgage;
2. cover the lives of one or more borrowers or, in the case of Mortgages with the benefit of a guarantee, the life of the guarantor;
3. be full or low cost or low cost low start endowment policies (conventional or unit linked); and
4. have a guaranteed minimum death benefit (in aggregate with other policies deposited or assigned) of not less than the principal of the original mortgage debt and any scheduled further advances of deferred interest or endowment premiums (excluding mortgage guarantee indemnity insurance premium and certain fees). Discretionary Further Advances and further advances under certain Mortgages which have or have had deferred payment facilities may, however, not be covered by life insurance.

New conventional endowment life policies are generally written on the basis that only 80% of the current reversionary bonus level need be maintained in order to pay off the mortgage debt upon maturity. No account is taken of the value of terminal bonuses.

Whilst NHL checks that the guaranteed minimum death benefit is sufficient to repay the loan, the checking of bonus assumptions is made by life companies.

### **Life Cover for Pension-Linked Mortgages**

A range of term life assurance policies are acceptable to be deposited with, or assigned to, NHL by way of additional security for pension-linked Mortgages.

New policies from one of NHL's panel of life offices or existing life policies from any U.K. registered life assurance company are acceptable.

Life policies are required to:

1. mature at or before the maturity of the mortgage;
2. cover the lives of one or more borrowers; and
3. have a guaranteed minimum death benefit (in aggregate with other policies deposited or assigned) of not less than the principal of the original mortgage debt and any scheduled further advances of deferred interest (excluding mortgage guarantee indemnity insurance premium and certain fees). Discretionary Further Advances and further advances under certain Mortgages which have or have had deferred payment facilities may, however, not be covered by life insurance.

## HLDL LENDING GUIDELINES

The guidelines provided by HLDL to help introducers of mortgage loan business to HLDL to assess the suitability of a potential borrower and of the security offered set a standard in respect of the HLDL Mortgages in the Provisional Mortgage Pool which, at the time any of the HLDL Mortgages included in the Provisional Mortgage Pool was originated, was not substantially different from the following:

### **Personal Details**

#### *Number of Applicants*

The normal maximum number of applicants who may be party to the mortgage is two. However, this number can be increased to four in certain cases where the additional applicants are part of the same family unit as the first two applicants. All applicants will be required to participate in ownership of the property and be party to the mortgage deed.

#### *Ages*

The minimum age of applicants is normally 21. It is expected that the maximum age at application will be 60 however HLDL will assess individual cases above this limit upon their merit.

#### *Qualification*

Applicants should have been resident in the UK for a minimum of the 3 years immediately prior to receipt of the application. Where applicants cannot fulfil this criteria, the case will only be considered if a satisfactory credit history can be obtained.

#### *Identity*

The intermediary should be satisfied with the identity of the applicant by sight for example of the applicant's current valid full passport; armed forces identity card; signed employer card bearing a photograph and signature; or a full UK driving licence.

### **Home Loan Requirements**

#### *Loan-to-value limits*

The maximum loan-to-value on either a house purchase or a remortgage is 100%. The Additional Security Fee and any processing fee related to the application may be added to the loan amount, however the loan-to-value inclusive of such amounts may not exceed 105%. Within this limit, loans are categorised as follows:

- (i) Loans not exceeding £150,000 are available up to a maximum loan-to-value of 100%
- (ii) Loans not exceeding £250,000 are available up to a maximum loan-to-value of 70%

#### *Amount of Loan*

The minimum amount of loan is £15,001, and the maximum £250,000 (subject to other criteria)

#### *Term of Loan*

Minimum term 5 years  
Maximum term 37 years

### **Property to be Mortgaged**

#### *Type of Property*

Loans must be secured on residential property considered to be suitable security by HLDL's valuer or a valuer appointed to act on HLDL's behalf.

The following are unacceptable to HLDL:

Properties located other than on mainland England or Wales

Freehold flats and maisonettes

Properties designated under the Housing Act 1985

Property having agricultural restrictions

Properties subject to notice of mineral extraction, or previous mining subsidence and land fill

Local Authority Flats being purchased under the Right-to-Buy Scheme

Self-build Properties (pre-completion)

The following will be considered by HLDL on an individual basis:

Properties used for part commercial purposes

Investment Properties

Properties with any part tenanted

Local Authority Houses being purchased under the Right-to-Buy Scheme

Property with adjoining land used for full or part commercial purposes

Property with adjoining land, having agricultural or other planning restrictions

Properties on which buildings insurance is not available on block policy terms (e.g. additional excesses for subsidence, non-standard construction)

Studio flats and bedsits

Flats directly attached to or directly above commercial premises

Property with an element of Flying Freehold

Self-build properties (post-completion)

Shared Ownership properties

### **New Properties**

Properties under 10 years old must have the benefit of an NHBC Certificate or any other approved guarantee from an acceptable body. Architects' Certificates must also be provided for each stage of construction together with Local Authority approval in respect of properties under 10 years old that do not have the benefit of an NHBC Certificate. Similar requirements may be imposed for converted properties.

#### *Occupation of the Property*

The property must either be occupied by the applicants (those party to the mortgage) or their dependants, or let on an assured shorthold tenancy basis.

#### *Tenure*

Properties are to be freehold or leasehold. Flats and maisonettes are to be leasehold on completion. The minimum length of the lease at the end of the mortgage term must be 35 years.

### **Valuation of Property**

A valuation of the property will be carried out by HLDL's surveyors department or a firm of valuers approved by them. An application fee where applicable, which will include the cost of valuation, will be paid by the applicant(s) at the time of application. HLDL reserves the right to have the property reinspected at any time after the original valuation, for which a reinspection fee will be payable by the applicant(s).

### **Credit History**

#### *Credit Search and Credit Score*

A credit search will be carried out in respect of all applicants. HLDL will decline applications where an adverse credit history (e.g. County Court Judgment, Default, Bankruptcy Notice etc.) is revealed, other than in exceptional circumstances.

It should be noted that HLDL utilises a credit scoring system as part of the underwriting process.

#### *Existing lenders reference*

A reference will be sought by HLDL in respect of any loan secured under a first charge. HLDL may also seek a reference from any previous lender in respect of any other first charge held during the last 3 years. Any reference must satisfy HLDL that the account has been properly conducted and that no history of material arrears exists.

#### *First time buyers/applicants in rented accommodation*

Where applicants currently reside in rented accommodation, a landlord's reference will be sought by HLDL. In addition, a further reference may be taken in connection with any other property rented by the applicant(s) within the 3 previous years.

#### *Bank reference*

A bank reference may be sought or the applicants may be required to provide bank statements in support of their application.

## **Income and Employment Details**

### *Maximum Loan*

The maximum amount available is initially calculated as follows:

Single applicant – up to 4 x contracted annual gross income

Multiple – up to 4 x principal contracted annual gross income plus contracted annual gross income of any one other applicant

– or up to 3 x joint contracted annual gross income of two applicants

Where appropriate, HLDL will consider rental income from tenanted residential property as part of an applicant's principal income.

Up to 50% of an applicant's regular overtime, bonus or commission may be taken into account in the maximum loan calculation, provided that the total overtime, bonus or commission taken into account does not exceed 25% of the total earnings.

HLDL will take into account other matters in its assessment of the applicant's ability to service the loan required which may limit the advance within the above multiples. Where more than two applicants are party to the mortgage (see Number of Applicants above) only two incomes will be considered with the above multiples applied accordingly.

### *Salaried Applicants*

Salaried applicants must derive their income from permanent or contracted employment, which other than in exceptional circumstances, is non-probationary. HLDL will seek a reference from applicants' current employers and any other employer they may have had in the 3 years prior to the date of application, where this is considered appropriate. The reference must contain sufficient information to allow a full assessment to be made and either be completed on, or accompanied by a letter on, the employer's company headed note paper. In addition the reference letter must be signed by an authorised officer of the employer.

In addition to the above, independent written verification of earnings must be submitted. This may include, for example, the latest or most recent P60. A copy is not acceptable.

### *Self-employed applicants*

Self-employed applicants must be subject to UK tax and derive their income from trading in the UK.

Where any of the following circumstances occur, the applicant will be treated as though self-employed unless HLDL can be provided with proof that this is inappropriate:

- An applicant has a liability to tax under any schedule of the Inland Revenue criteria other than Schedule E
- An applicant owns 20% or more of the shares of the company providing their employment
- An applicant is related to the family which owns the company providing their employment

For each applicant defined as self-employed in accordance with these guidelines, a minimum of 3 years accounts for the business and 3 personal tax assessments should normally be submitted to HLDL. This must include the latest available accounts and should normally include accounts for the most recently completed trading year.

Other than in exceptional circumstances, applications will not be accepted where 3 years accounts and the corresponding 3 personal tax assessments cannot be provided. Where applicable, all accounts should be certified or audited by a Chartered or Certified Accountant, in full time private practice with a current UK practising certificate and appearing in the current issue of either the directory of firms (The Institute of Chartered Accountants of England and Wales) or list of members (The Chartered Association of Certified Accountants). Where the accountant is neither Chartered, nor Certified, acceptance of the case will be subject to HLDL's discretion.

In addition, HLDL may seek an additional reference from the party responsible for preparing the accounts.

## INSURANCE COVERAGE

The following is a summary of the various insurance and assurance contracts which are relevant to the Mortgages purchased by the Issuer on the Closing Date and the activities of the Issuer and the Administrator.

### **Endowment Life Policies and Term Life Policies**

The amount payable upon the maturity of endowment life assurance policies which are collateral security for certain Mortgages (the "Life Policies") will vary depending on the terms of the relevant Life Policy, any bonuses declared during the term of the Life Policy and any bonuses declared and payable upon its termination. On prudent assumptions, and without taking account of terminal bonuses, the amount payable upon the maturity of the Life Policies relating to any Mortgage was, when the Mortgage was originated, expected to be not less than the initial principal amount advanced by NHL or HLDL pursuant to that Mortgage (excluding any mortgage guarantee indemnity insurance premium which has been added to the amount of the Mortgage and certain other fees) plus any scheduled further advances of deferred interest or endowment premiums. Discretionary Further Advances and further advances under certain Mortgages which have or have had deferred payment facilities may, however, not be covered by life assurance.

The Administrator, on behalf of the Issuer, would expect to be notified by the life assurance company of any default in the payment of premiums on the Life Policy and in other circumstances where the value of the Life Policy may be reduced. In such a case, the Administrator will take action to preserve the value of the security, in the first instance by requesting the borrower to ensure that premiums on the Life Policy are paid and continue to be paid and, if this fails, by either converting the policy into a "paid up policy" in which case it continues to attract nominal bonuses which will be paid on maturity or by surrendering it to the life assurance company in return for a cash payment (the "surrender value") which would be applied in reduction of the amount outstanding on the Mortgage. The Administrator may, instead, elect, on behalf of the Issuer, to pay premiums due on the Life Policy on the basis that these would thenceforth be added to the amount due under the Mortgage.

The amount payable under the life policies which are collateral security for pension-linked Mortgages (the "Term Life Policies") on the death of the assured prior to maturity of the Mortgage is guaranteed to be at least equal to the initial principal amount advanced by NHL or HLDL pursuant to that Mortgage (excluding any mortgage guarantee indemnity insurance premium which has been added to the amount of the Mortgage and certain other fees) plus any scheduled further advances of deferred interest. Discretionary Further Advances and further advances under certain Mortgages which have or have had deferred payment facilities may, however, not be covered by life insurance.

The Administrator, on behalf of the Issuer, would expect to be notified by the life assurance company of any default in the payment of premiums on a Term Life Policy. In such a case, the Administrator will take action to preserve the value of the security, in the first instance by requesting the borrower to ensure that premiums on the Term Life Policy are paid and continue to be paid and, if this fails, the Administrator may elect, on behalf of the Issuer, to pay premiums due on the Term Life Policy on the basis that these would thenceforth be added to the amount due under the Mortgage.

The Administrator may, if a borrower so requests or agrees or if the borrower is in default, convert any Mortgage from an endowment Mortgage (under which payments of interest only are made by the borrower) to a Repayment Mortgage under which the borrower repays principal and interest throughout the remaining term of the Mortgage. The Administrator will be permitted to take any of these actions pursuant to the Administration Agreement.

Each of NHL and HLDL has undertaken in the Mortgage Sale Agreement that within 6 months of the date of the completion of the sale and purchase of the Mortgages it will use all reasonable endeavours to deliver to the Trustee a schedule confirming that each of the Life Policies and the Term Life Policies has been delivered to the Issuer in accordance with the Mortgage Sale Agreement and setting out the name of the relevant insurance company, the policy number of each Life Policy or Term Life Policy (as appropriate) and the name of the relevant borrower.

The benefit of NHL's interest in the Life Policies and the Term Life Policies will be assigned by NHL to the Issuer and the benefit of HLDL's interest in the Life Policies and the Term Life Policies will be assigned by HLDL to the Issuer and in each case charged by the Issuer to the Trustee. Notice of the assignment and charge will only be required to be given to the relevant life assurance companies in certain limited circumstances set out in the Administration Agreement.

### **NHL Mortgage Guarantee Indemnity Insurance**

Save in respect of certain of the Excluded Mortgages, certain of the Local Authority Mortgages, the Right-to-Buy Mortgages and certain NHL Shared Ownership Mortgages, where the amount of an initial advance by NHL (excluding certain fees added to the amount of the initial advance) when aggregated with any

further advances scheduled to be, or actually, made by NHL exceeded 75% of the lower of the purchase price, where relevant, and the value of the Property for security purposes in the opinion of a valuer approved by NHL or, in the case of Right-to-Buy Mortgages where the original advance (excluding certain fees added to the amount of the original advance) exceeded 75% of the valuation of the relevant property and save in respect of certain Mortgages where the premium for the mortgage guarantee indemnity insurance policy is £10.00 or less, NHL has the benefit of mortgage guarantee indemnity insurance written by Sun Alliance and Legal & General. In such cases, a single premium was payable by the borrower at the time of the advance and was normally added to the amount of the advance.

Like other UK mortgage lenders NHL has experienced delays in achieving successful settlement of claims made by it under mortgage guarantee indemnity insurance policies relating to mortgages originated by it and there can be no guarantee that such delays will not affect those Mortgages in respect of which mortgage guarantee indemnity insurance has been taken out. Consequently, in order to expedite the settlement of claims under the mortgage guarantee indemnity insurance policies or policy relating to the Mortgages, the Administrator may make arrangements with insurers pursuant to which the insurers shall be entitled to settle disputed claims under the mortgage guarantee indemnity insurance policies relating to the Mortgages at a discount to the face amount of such claims provided that payment of the settlement amount is made within an agreed period from the date of each claim. These arrangements are intended to have the effect of accelerating receipt from the insurers of the proceeds of claims made under the relevant mortgage guarantee indemnity insurance policies or policy and may entitle the insurers to discount claims.

The benefit of NHL's interests in the Sun Alliance and the Legal & General mortgage guarantee indemnity insurance policies as they relate to Properties which are subject to the Mortgages will be assigned by NHL to the Issuer and charged by the Issuer to the Trustee. Notice of the assignment and charge will be given to Sun Alliance and Legal & General. Any claim under such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

The consents of Sun Alliance and Legal & General to the assignment of the benefit of the relevant mortgage guarantee indemnity insurance to the Issuer and to the Trustee as security and to Barclays as administrator of last resort are expected to be obtained on or before the Closing Date. Save for where Barclays acts as administrator of last resort, it is likely that, if NHL ceases to administer the Mortgages, prior approval of Sun Alliance and Legal & General will be required for the mortgage guarantee indemnity insurance to continue.

#### **HLDL Mortgage Indemnity Insurance**

Where the amount of an initial advance by HLDL (excluding any additional security fee added to the amount of the initial advance) when aggregated with any further advances made by HLDL exceeded 70% of the lower of the purchase price, where relevant, and the value of the Property for security purposes in the opinion of a valuer approved by HLDL, HLDL has the benefit of mortgage indemnity insurance written by Lloyd's of London through the agency of C.E. Heath (Insurance Services) Limited. In such cases, a single additional security fee was payable by the borrower at the time of the advance and was normally added to the amount of the advance.

As with NHL, there can be no guarantee that claim delays could not affect those HLDL Mortgages in respect of which mortgage indemnity insurance has been taken out. Consequently, in order to expedite the settlement of claims under the mortgage indemnity insurance policy relating to the Mortgages, the Administrator may make arrangements with insurers pursuant to which the insurers shall be entitled to settle disputed claims under the mortgage indemnity insurance policy relating to the Mortgages at a discount to the face amount of such claims provided that payment of the settlement amount is made within an agreed period from the date of each claim. These arrangements would be intended to have the effect of accelerating receipt from the insurers of the proceeds of claims made under the mortgage indemnity insurance policy and might entitle the insurers to discount claims.

The benefit of HLDL's interests in the Lloyd's of London mortgage indemnity insurance policy as it relates to Properties which are subject to the Mortgages will be assigned by HLDL to the Issuer and charged by the Issuer to the Trustee. Notice of the assignment and charge will be given to Lloyd's of London through the agency of C.E. Heath (Insurance Services) Limited. Any claim under such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

Save for where Barclays acts as administrator of last resort, it is likely that, if HLDL ceases to administer the Mortgages, prior approval of Lloyd's of London through the agency of C.E. Heath (Insurance Services) Limited will be required for the mortgage indemnity insurance to continue.

#### **Buildings Insurance**

The following is a summary of the principal types of buildings insurance of which the Issuer will have the benefit from the date of completion of the acquisition of the Mortgages, which benefit will be charged to the Trustee pursuant to the Deed of Charge.

All freehold Properties except those mentioned in the next paragraph will be insured under the comprehensive block policies in the name of NHL or HLDL, the benefit of which will in the case of NHL's Mortgages be assigned to the Issuer on the Closing Date with the interest of the Trustee noted thereon unless this is unnecessary for the Issuer and the Trustee to be or become insured thereunder, for their reinstatement value, as recommended by the relevant valuer, from the date of completion of the acquisition of the Mortgages by the Issuer. For NHL Mortgages and for HLDL Mortgages the relevant block policies will be with Lloyd's underwriters through the agency of C.E. Heath (Insurance Services) Limited. The premiums will be collected monthly by the Administrator with the interest payments due on the Mortgages.

In cases involving freehold Properties where the borrower specifically requested permission to make his own insurance arrangements each of NHL and HLDL has ensured that it has become a named insured or that its interest has been noted on the policy taken out by the borrower. The Issuer will have the benefit of insurance to provide cover in the event that such Properties are not, or are not adequately, insured. Each of NHL and HLDL has policies which cover losses arising from a failure by an insurer under a buildings policy arranged by a borrower to pay in full the amount of any otherwise valid claim under such policy by such borrower or by NHL or HLDL as a result of acts or omissions unknown to, or beyond the control of, NHL or HLDL.

Leasehold Properties will be insured in the same way unless the lease requires insurance to be effected by the landlord. In these cases each of NHL and HLDL has taken all reasonable steps to ensure that the relevant Property was insured under a policy with an insurance company approved by NHL or HLDL, as the case may be, against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the originator's valuer and that either NHL or HLDL, as the case may be, has become a named insured or its interest has been noted by the insurers.

In cases involving Leasehold Property where the lease requires insurance to be effected by the landlord, the Issuer will have the benefit of insurance, the effect of which will be to provide cover if the Leasehold Property is not, or is not adequately, insured under the terms of the lease. The Administrator may instruct a valuer to check that satisfactory reinstatement has taken place and to review the value of the Property for security purposes.

The benefit of NHL's and HLDL's interests in those insurance policies referred to above insofar as they relate to the Mortgages will either be assigned by NHL and HLDL to the Issuer or the Issuer will be or become a named insured thereunder. The Issuer's interest in all of the insurance policies referred to above will, if the Trustee is not itself insured thereunder, be assigned to the Trustee and no notice of each of these assignments will be given to the insurers, save that notice of the assignments by NHL and HLDL to the Issuer will be given in respect of those of the policies referred to above where NHL or HLDL is a named insured or on which NHL's or HLDL's interest is noted. Any claim under any such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

#### **Other Miscellaneous Insurances**

Both NHL and HLDL have insurance which covers loss arising from negligent acts, errors or omissions and dishonesty or fraud by the insured's staff, negligence or breach of duty by its directors and officers and fraudulent interference with computer systems or data. The Issuer will be endorsed as a named insured under each of these policies, and the Trustee's interest will be noted on the policies, with effect from the completion of the acquisition of the Mortgages by the Issuer and execution of the Deed of Charge. It is also expected that policies covering such risks will be issued in the name of the Issuer and the Trustee within six months from the completion of the acquisition of the Mortgages by the Issuer and execution of the Deed of Charge.

The solicitors who acted on behalf of NHL and HLDL in relation to the Mortgages are all covered by the professional indemnity scheme established by The Law Society. This scheme should provide compensation in the event that NHL, HLDL or the Issuer has a claim against such solicitors for negligence which is not satisfied by such solicitors out of their own resources. Licensed conveyancers who acted on behalf of NHL or HLDL in relation to the Mortgages are all covered by a similar indemnity scheme established under the Administration of Justice Act 1985.

NHL also has the benefit of insurance with Sun Alliance to cover the situation where it granted further advances on existing first mortgages prior to October 1992, the borrower has granted a second charge over the relevant Property without NHL receiving notice and NHL has not obtained the second mortgagee's agreement to postponement of such second charge. Notwithstanding the fact that NHL has not received such notice it may nevertheless be deemed to have constructive notice of the creation of the second charge. NHL's policy does not apply to any Mandatory Further Advance made under the terms of a Stabilised Rate Mortgage. The Issuer will have assigned to it the benefit of NHL's policy in relation to matters arising prior to its purchase of the Mortgages.



Both NHL and HLDD have the benefit of insurance with Combined Insurance Company of America and London General Insurance Company Limited which provides for certain payments to be made to NHL and HLDD (as the case may be) in the event of the total disability, unemployment or hospitalisation of a particular borrower. The benefits received by NHL or HLDD are applied by them in reducing the borrower's indebtedness to NHL or HLDD (as the case may be). The benefit of NHL's and HLDD's interests in these policies will be assigned by NHL or HLDD (as the case may be) to the Issuer and charged by the Issuer to the Trustee.

## THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool evidenced by the mortgages described below (the “Provisional Mortgage Pool”) consists of 2,772 mortgages with Current Principal Balances (as defined below) as of 1st December 1995 of £126,439,532.51 and further advances scheduled or available on demand of £421,988.46. The Mortgages purchased by the Issuer on the Closing Date form part only of the Provisional Mortgage Pool which contains other mortgage loans that will not be sold by NHL or HLDL to the Issuer. Therefore the information set out below in relation to the Provisional Mortgage Pool may not necessarily correspond to that for the Mortgages actually sold on the Closing Date.

All of the mortgage loans forming part of the Provisional Mortgage Pool which were originated by NHL or HLDL were originated between April 1986 and October 1995. The Local Authority Mortgages were acquired by NHL between January 1985 and December 1988.

The majority of the Mortgages to be purchased by the Issuer on the Closing Date at origination had maturities of approximately 25 years although pension-linked Mortgages may have maturities of up to 35 years with the latest scheduled maturity of any mortgage loan in the Provisional Mortgage Pool being not later than October 2028. Mortgages in the Provisional Pool, being Arrears Mortgages, with a current balance outstanding less accrued and unpaid arrears (“Current Principal Balance”) of £19,345,782.10 had outstanding payments in excess of one current monthly payment. An Arrangement Mortgage is an Arrears Mortgage which is making payment under arrangement and on which a payment has been received in each of the previous 6 months with the most recent payment being in excess of the current monthly payment. Mortgages in the Provisional Mortgage Pool as at 1st December 1995 with a Current Principal Balance of £4,006,132.88 were Arrangement Mortgages.

The Excluded Mortgages in the Provisional Mortgage Pool have an aggregate Current Principal Balance of not more than £6,770,948.60. This total is comprised of: (v) Excluded Mortgages with an aggregate Current Principal Balance of not more than £960,574.44 where the amount advanced could have been in excess of 75% of the lower of the value of the Property for security purposes in the opinion of a valuer approved by NHL and the purchase price, where appropriate, (excluding certain fees) and no mortgage guarantee indemnity insurance was effected in respect of such excess; (w) Excluded Mortgages with an aggregate Current Principal Balance of not more than £873,017.88 where the amount advanced in each case could have been more than three times the annual income of the primary wage earner plus the annual income of one further party to the loan or in the case of joint borrowers where both are over 21 years old, more than two and a half times the joint income; (x) Excluded Mortgages with an aggregate Current Principal Balance of not more than £894,505.20 which could have breached other lending criteria; (y) Excluded Mortgages with an aggregate Current Principal Balance of not more than £3,696,328.58 where certain other warranties may not apply and (z) Staff loans with a Current Principal Balance of not more than £1,190,098.02 where certain warranties may not apply. The NHL Shared Ownership Mortgages in the Provisional Mortgage Pool have an aggregate Current Principal Balance of not more than £301,761.32. The Local Authority Mortgages in the Provisional Mortgage Pool have an aggregate Current Principal Balance of not more than £267,393.05.

The following tables give further information about the Provisional Mortgage Pool as at 1st December 1995. (The percentages in the “% of Total” columns may not, due to truncation of numbers, total 100%.)

### Loan-to-Value Ratios (“LTV”)

Loan-to-Value Ratios (%)	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total
> 0 < = 25 . . . . .	1,842,891.47	1.45	90	3.24
> 25 < = 50 . . . . .	17,093,607.04	13.51	521	18.79
> 50 < = 55 . . . . .	6,866,968.19	5.43	171	6.16
> 55 < = 60 . . . . .	6,588,276.17	5.21	157	5.66
> 60 < = 65 . . . . .	10,291,098.34	8.13	225	8.11
> 65 < = 70 . . . . .	14,293,435.47	11.30	278	10.02
> 70 < = 75 . . . . .	18,014,222.53	14.24	359	12.95
> 75 < = 80 . . . . .	13,396,938.55	10.59	255	9.19
> 80 < = 85 . . . . .	8,508,610.24	6.72	139	5.01
> 85 < = 90 . . . . .	6,461,144.21	5.11	116	4.18
> 90 < = 95 . . . . .	7,539,388.18	5.96	131	4.72
> 95 < = 97 . . . . .	3,885,708.52	3.07	86	3.10
> 97 < = 100 . . . . .	3,127,078.04	2.47	63	2.27
Over 100 <sup>(1)</sup> . . . . .	8,530,165.56	6.74	181	6.52
<b>Total:</b>	<b>126,439,532.51</b>		<b>2,772</b>	

Average LTV weighted by Current Principal Balance 70.82%.

Note:

(1) The Loan-to-Value Ratio can exceed 100% when mortgage guarantee indemnity insurance premium and certain other fees charged to the borrower are added to the amount of the original advance. The total amount of the excess over 100% is £264,125.56 in respect of the Mortgages in the Provisional Mortgage Pool.

### Outstanding Commitment Summary

Product	Outstanding Commitment	Current Principal Balance (£)	Aggregate Valuation	Current LTV(%)	Potential Current Principal Balance (£)	Potential LTV(%)
NHL Stabilised Rate Mortgages . . . . .	379,838.46	3,171,935.02	4,950,100.00	64.07	3,551,773.48	71.75
HLDL Mortgages (Retentions) . . . . .	42,150.00	1,110,931.66	1,686,500.00	65.87	1,153,081.66	68.37
<b>Total</b>	<b>421,988.46</b>	<b>4,282,866.68</b>	<b>6,636,600.00</b>	<b>64.53</b>	<b>4,704,855.14</b>	<b>70.89</b>

### Types of Mortgage

Product	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total
Standard only . . . . .	123,267,597.49	97.49	2,688	96.97
Stabilised Rate only . . . . .	3,171,935.02	2.51	84	3.03
<b>Total</b>	<b>126,439,532.51</b>		<b>2,772</b>	

### Product Summary by Rate Fixing Method

Product	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total
Local Authority Rate . . . . .	267,393.05	0.21	15	0.54
NHL Standard Variable Rate . . . . .	72,350,488.27	57.22	1,636	59.02
HLDL Standard Variable Rate . . . . .	27,410,578.51	21.68	587	21.18
Blue Chip Variable Rate . . . . .	18,031,519.37	14.26	359	12.95
LIBOR-Linked Variable Rate . . . . .	50,000.00	0.04	1	0.04
NHL Fixed Rate . . . . .	2,630,404.89	2.08	54	1.95
HLDL Fixed Rate . . . . .	4,589,936.45	3.63	99	3.57
Staff Rate . . . . .	1,109,211.97	0.88	21	0.76
<b>Total</b>	<b>126,439,532.51</b>		<b>2,772</b>	

### Product Summary by Repayment Method

Product	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total
Endowment . . . . .	77,637,039.94	61.40	1,784	64.35
Repayment . . . . .	33,102,133.41	26.18	711	25.64
Interest-only and Pension-linked . . . . .	15,700,359.16	12.41	277	9.99
<b>Total</b>	<b>126,439,532.51</b>		<b>2,772</b>	

### Current Principal Balance

Current Principal Balance (£)	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total
0.00 –15,000 . . . . .	485,333.06	0.38	50	1.80
15,000.01 – 30,000 . . . . .	16,945,373.84	13.40	709	25.57
30,000.01 – 45,000 . . . . .	34,789,983.45	27.51	941	33.94
45,000.01 – 60,000 . . . . .	29,987,247.14	23.71	582	20.99
60,000.01 – 70,000 . . . . .	11,703,716.18	9.25	182	6.56
70,000.01 – 80,000 . . . . .	6,332,519.92	5.00	84	3.03
80,000.01 – 90,000 . . . . .	4,966,586.20	3.92	59	2.12
90,000.01 – 100,000 . . . . .	3,595,702.13	2.84	38	1.37
100,000.01 –110,000 . . . . .	3,773,630.89	2.98	36	1.29
110,000.01 –120,000 . . . . .	1,944,104.73	1.53	17	0.61
120,000.01 –130,000 . . . . .	1,980,231.69	1.56	16	0.57
130,000.01 –140,000 . . . . .	1,608,402.01	1.27	12	0.43
140,000.01 –150,000 . . . . .	1,019,519.83	0.80	7	0.25
150,000.01 –175,000 . . . . .	2,812,850.83	2.22	18	0.64
175,000.01 –200,000 . . . . .	2,082,100.38	1.64	11	0.39
200,000.01 –225,000 . . . . .	421,258.11	0.33	2	0.07
225,000.01 –250,000 . . . . .	708,287.15	0.56	3	0.10
Over 250,000 . . . . .	1,282,684.97	1.01	5	0.18
<b>Total</b>	<b>126,439,532.51</b>		<b>2,772</b>	

## Property Tenure

Property Tenure	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total
Freehold . . . . .	105,851,561.15	83.71	2,274	82.03
Leasehold . . . . .	20,587,971.36	16.28	498	17.96
<b>Total</b>	<b>126,439,532.51</b>		<b>2,772</b>	

## Seasoning of Mortgages

Year of Completion <sup>(2)</sup>	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total
1986 . . . . .	10,437,300.91	8.25	295	10.64
1987 . . . . .	21,732,044.14	17.18	535	19.30
1988 . . . . .	15,095,704.82	11.93	294	10.60
1989 . . . . .	10,065,650.96	7.96	199	7.17
1990 . . . . .	7,802,712.73	6.17	163	5.88
1991 . . . . .	29,255,603.99	23.13	599	21.60
1992 . . . . .	0.00	0.00	0	0.00
1993 . . . . .	0.00	0.00	0	0.00
1994 . . . . .	1,694,393.64	1.34	35	1.26
1995 . . . . .	30,356,121.32	24.00	652	23.52
<b>Total</b>	<b>126,439,532.51</b>		<b>2,772</b>	

Note:

(2) For Local Authority Mortgages acquired by NHL seasoning is from the date of transfer to NHL rather than from the completion date of the mortgage.

## Maturity of Mortgage

Year of Maturity <sup>(3)</sup>	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total
> 0 < 5 . . . . .	830,930.44	0.65	25	0.90
> = 5 < 10 . . . . .	5,420,231.05	4.28	161	5.80
> = 10 < 15 . . . . .	14,125,741.40	11.17	354	12.77
> = 15 < 20 . . . . .	68,917,164.42	54.50	1,469	52.99
> = 20 < 25 . . . . .	35,876,748.90	28.37	739	26.65
> = 25 < 30 . . . . .	1,172,088.80	0.92	21	0.75
> = 30 < 35 . . . . .	96,627.50	0.07	3	0.10
<b>Total</b>	<b>126,439,532.51</b>		<b>2,772</b>	

Note:

(3) From December 1995 to maturity of Mortgage.

## Loan Purpose

Use of Proceeds	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total
House/Flat Purchase . . . . .	75,405,798.65	59.63	1,669	60.20
Remortgage . . . . .	51,033,733.86	40.36	1,103	39.79
<b>Total</b>	<b>126,439,532.51</b>		<b>2,772</b>	

## Geographical Dispersion

Defined Area	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total
North .. .. .	3,366,054.43	2.66	96	3.46
North West .. .. .	5,728,816.97	4.53	157	5.66
Yorks .. .. .	6,334,497.85	5.00	170	6.13
East Midlands . . . . .	6,041,004.07	4.77	158	5.69
West Midlands . . . . .	10,801,427.41	8.54	267	9.63
East Anglia .. .. .	5,211,675.73	4.12	119	4.29
South East (excl. Greater London) .. .. .	54,327,116.85	42.96	1,074	38.74
South West .. .. .	11,305,273.97	8.94	273	9.84
Greater London .. .. .	20,043,082.84	15.85	374	13.49
Wales .. .. .	3,280,582.39	2.59	84	3.03
<b>Total</b>	<b>126,439,532.51</b>		<b>2,772</b>	

## Number of Months in Possession: Properties in Possession

No. of Months	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total
0 – 1 .. .. .	62,970.34	7.73	1	5.88
1 – 2 .. .. .	160,013.22	19.64	3	17.65
2 – 3 .. .. .	151,949.20	18.65	4	23.53
3 – 4 .. .. .	75,703.63	9.29	2	11.76
4 – 5 .. .. .	87,642.65	10.76	2	11.76
5 – 6 .. .. .	43,508.56	5.34	1	5.88
6 – 7 .. .. .	43,505.24	5.34	1	5.88
7 – 8 .. .. .	0.00	0.00	0	0.00
8 – 9 .. .. .	0.00	0.00	0	0.00
9 – 10 .. .. .	64,212.93	7.88	1	5.88
10 – 11 .. .. .	0.00	0.00	0	0.00
11 – 12 .. .. .	0.00	0.00	0	0.00
12 – 13 .. .. .	0.00	0.00	0	0.00
13 – 14 .. .. .	0.00	0.00	0	0.00
14 – 15 .. .. .	65,030.83	7.98	1	5.88
15 – 16 .. .. .	0.00	0.00	0	0.00
16 – 17 .. .. .	0.00	0.00	0	0.00
17 – 18 .. .. .	60,233.92	7.39	1	5.88
<b>Total</b>	<b>814,770.52</b>		<b>17</b>	

Average number of months in possession weighted by current principal balance: 6.03

#### Number of Months in Arrears: Properties in Possession<sup>(4)</sup>

Months	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total	Interest Accrued (£)
< = 1 . . . . .	46,866.25	5.75	1	5.88	0.00
1 – 2 . . . . .	0.00	0.00	0	0.00	0.00
2 – 3 . . . . .	62,970.34	7.72	1	5.88	1,648.51
3 – 4 . . . . .	0.00	0.00	0	0.00	0.00
4 – 5 . . . . .	25,401.00	3.11	1	5.88	1,358.66
5 – 6 . . . . .	46,359.20	5.68	1	5.88	2,591.32
6 – 7 . . . . .	0.00	0.00	0	0.00	0.00
7 – 8 . . . . .	81,609.34	10.01	2	11.76	6,908.67
8 – 9 . . . . .	0.00	0.00	0	0.00	0.00
9 – 10 . . . . .	119,002.34	14.60	2	11.76	12,475.11
10 – 11 . . . . .	82,847.07	10.16	2	11.76	10,802.04
11 – 12 . . . . .	0.00	0.00	0	0.00	0.00
12 – 15 . . . . .	82,396.01	10.11	2	11.76	14,537.53
15 – 18 . . . . .	77,841.29	9.55	2	11.76	15,172.18
18 – 21 . . . . .	65,030.83	7.98	1	5.88	38,186.64
21 – 24 . . . . .	64,212.93	7.88	1	5.88	19,560.84
24 – 30 . . . . .	60,233.92	7.39	1	5.88	22,889.45
<b>Total</b>	<b>814,770.52</b>		<b>17</b>		<b>146,130.95</b>

Average number of months in arrears, for Mortgages which are greater than one month in arrears, weighted by current principal balance: 12.64

Note:

(4) The extent to which a particular mortgage is “in arrears” is determined by dividing the aggregate amount of payments (whether in respect of interest, principal or any other amounts) in arrears by the current monthly payment due. Thus, a mortgage “six months in arrears” means that the borrower has failed to pay in aggregate amounts totalling more than six times the current monthly payment due from him. A change in interest rates set on a Mortgage will result in a change to the number of months in arrears as shown in the above table even though the aggregate amount of payments in arrears may remain unaltered.

#### Number of Months in Arrears: Properties not in Possession<sup>(4)</sup>

Months	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total	Interest Accrued (£)
< = 1 . . . . .	107,046,884.16	85.21	2,407	87.36	174,936.66
1 – 2 . . . . .	5,807,204.50	4.62	105	3.81	100,146.49
2 – 3 . . . . .	3,328,750.32	2.64	66	2.39	85,536.86
3 – 4 . . . . .	1,866,190.83	1.48	33	1.19	67,482.27
4 – 5 . . . . .	1,043,029.81	0.83	24	0.87	50,558.21
5 – 6 . . . . .	1,224,425.01	0.97	29	1.05	68,125.89
6 – 7 . . . . .	992,345.30	0.78	16	0.58	70,961.95
7 – 8 . . . . .	698,925.39	0.55	17	0.61	56,646.94
8 – 9 . . . . .	628,254.05	0.50	11	0.39	61,397.26
9 – 10 . . . . .	718,687.72	0.57	12	0.43	75,625.36
10 – 11 . . . . .	92,179.94	0.07	3	0.10	12,089.42
11 – 12 . . . . .	31,361.44	0.02	1	0.03	3,408.44
12 – 15 . . . . .	800,001.77	0.63	12	0.43	127,672.07
15 – 18 . . . . .	423,355.46	0.33	8	0.29	102,964.59
18 – 21 . . . . .	394,815.72	0.31	5	0.18	109,638.27
21 – 24 . . . . .	107,509.24	0.08	2	0.07	29,069.48
24 – 30 . . . . .	124,641.60	0.09	1	0.03	39,071.43
30 – 36 . . . . .	296,199.73	0.23	3	0.10	164,250.38
<b>Total</b>	<b>125,624,761.99</b>		<b>2,755</b>		<b>1,399,581.97</b>

Average number of months in arrears, for Mortgages which are greater than one month in arrears, weighted by current principal balance: 5.42

#### Number of Months in Arrears: Overall Figures<sup>(4)</sup>

Months	Current Principal Balance (£)	% of Total	Number of Mortgages	% of Total	Interest Accrued (£)
< = 1	107,093,750.41	84.69	2,408	86.86	174,936.66
1 – 2	5,807,204.50	4.59	105	3.78	100,146.49
2 – 3	3,391,720.66	2.68	67	2.41	87,185.37
3 – 4	1,866,190.83	1.47	33	1.19	67,482.27
4 – 5	1,068,430.81	0.84	25	0.90	51,916.87
5 – 6	1,270,784.21	1.00	30	1.08	70,717.21
6 – 7	992,345.30	0.78	16	0.57	70,961.95
7 – 8	780,534.73	0.61	19	0.68	63,555.61
8 – 9	628,254.05	0.49	11	0.39	61,397.26
9 – 10	837,690.06	0.66	14	0.50	88,100.47
10 – 11	175,027.01	0.13	5	0.18	22,891.46
11 – 12	31,361.44	0.02	1	0.03	3,408.44
12 – 15	882,397.78	0.69	14	0.50	142,209.60
15 – 18	501,196.75	0.39	10	0.36	118,136.77
18 – 21	459,846.55	0.36	6	0.21	147,824.91
21 – 24	171,722.17	0.13	3	0.10	48,630.32
24 – 30	184,875.52	0.14	2	0.07	61,960.88
30 – 36	296,199.73	0.23	3	0.10	164,250.38
<b>Total</b>	<b>126,439,532.51</b>		<b>2,772</b>		<b>1,545,712.92</b>

Average number of months in arrears, for Mortgages which are greater than one month in arrears, weighted by current principal balance: 5.71

#### Percentage of Subscription Paid (in aggregate) for Mortgages which are greater than one month in arrears<sup>(5)</sup>

Current Principal Balance (£)	Last Month	Last Three Months
0%	4,048,931.10	1,883,582.01
> 0% <= 50%	910,848.50	1,955,714.94
> 50% <= 100%	6,746,747.06	9,901,031.58
= 100%	414,750.63	135,156.15
> 100% <= 150%	5,516,353.03	5,050,757.11
> 150%	1,708,151.78	419,540.31
<b>Total</b>	<b>19,345,782.10</b>	<b>19,345,782.10</b>

Note:

(5) The Subscription is the monthly amount due on accounts.

This table shows the Current Principal Balance of accounts which have paid in aggregate the percentage of the subscription due over the relevant period e.g. accounts with a Current Principal Balance of £6,746,747.06 have paid between 50% and 100% of their subscription for the last month and accounts with a Current Principal Balance of £9,901,031.58 have paid in aggregate between 50% and 100% of their total subscription for the last three months.



## MORTGAGE ADMINISTRATION

### Introduction

NHL will be appointed by each of the Issuer and the Trustee under the Administration Agreement to be its agent to administer the Mortgages. NHL will administer the Mortgages with the diligence and skill it would apply if it were a reasonably prudent mortgage lender administering its own mortgages subject to the provisions of the Administration Agreement. NHL will undertake that in its role as administrator it will comply with any proper directions, orders and instructions which the Issuer or the Trustee may from time to time give to NHL in accordance with the provisions of the Administration Agreement. Save as provided therein, the Administration Agreement is conditional upon completion of the Mortgage Sale Agreement taking place. NHL's appointment as administrator can be terminated by the Trustee in the event of a breach by NHL of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders or in the event of NHL's insolvency.

As at 1st December 1995, NHL employed approximately 300 people in mortgage origination and administration.

### Mortgage Interest Rate

After completion of the Mortgage Sale Agreement and pursuant to the Administration Agreement, NHL (on behalf of the Issuer and the Trustee) will set or calculate the rates of interest applicable to the Mortgages purchased by the Issuer, in accordance with the Mortgage Conditions of NHL or HLDL (as the case may be) except in certain limited circumstances when the Trustee or a substitute administrator or Barclays acting in its capacity as administrator of last resort will be entitled to do so.

Interest in relation to the NHL Mortgages is calculated on the basis of the amount owing by a borrower immediately after the initial advance or on 31st March in each year or on the last day of the preceding calendar quarter (adjusted in respect of further advances and/or principal payments). Interest in relation to the HLDL Mortgages is calculated on the basis of the amount owing by a borrower immediately after the initial advance or on the last day of the preceding month (adjusted in respect of further advances and/or principal payments).

In relation to the Stabilised Rate Mortgages, the interest payment is calculated on the amount owing by a borrower immediately after the initial advance at a fixed rate which is, at the date hereof, 10.49, 11.49, 11.99 or 12.49% per annum. NHL will credit to the borrower's account each month any amount by which interest calculated at the rate applicable to Standard Mortgages exceeds the relevant fixed rate. The monthly credits will themselves accrue interest at the rate applicable to Standard Mortgages and all interest will be capitalised quarterly. When the aggregate of all monthly credits and capitalised interest reaches 15% of the original amount advanced or, in certain cases, if earlier, the expiry of five years from the date of the original advance, the interest charging balance will be increased by the amount of all monthly credits and capitalised interest and the monthly payments to be made by the borrower will then be calculated at the rate applicable to Standard Mortgages on the basis of the interest charging balance as so increased. The borrower has the option at any time of paying interest at the rate applicable to Standard Mortgages if this is lower than the relevant fixed rate at that time.

In setting the interest rates on the Mortgages, NHL will have regard to the rates of interest on the Class A Notes and the Mezzanine Notes but as to the interrelation between the interest rates on the Mortgages and the rate of interest on the Class A Notes and the Mezzanine Notes, see "Mortgage Interest Rate Shortfalls, Minimum Interest Rate and the Shortfall Fund" below.

### Payment Shortfalls and the First Loss Fund

The Issuer will, on the Closing Date, apply the proceeds of a drawing under the NHL Subordinated Loan Agreement in establishing the First Loss Fund of £2,000,000 for the purpose of providing, in the manner described in more detail below, funds to meet any shortfall as between the amount of monthly payments of interest received from borrowers plus any other net income of the Issuer and interest due on the Class A Notes and certain other payments and, in certain circumstances, interest due on the Mezzanine Notes.

Revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (vi) inclusive (or to the extent that the priority of payments of interest due on the Mezzanine Notes is postponed, as set out in "Summary – Priority of Payments" above, items (i) to (v) inclusive) in "Summary – Priority of Payments" above will be applied on each of the first six Interest Payment Dates in replenishing, and then increasing, the First Loss Fund to a level of £166,666 above the maximum amount which was required to stand to the credit of the First Loss Fund on the preceding Interest Payment Date or, in the case of the first Interest Payment Date, above £2,000,000. On each Interest Payment Date from (and including) the Interest Payment Date falling in July 1997, revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (vi) inclusive (or to the extent that the priority of payment of interest due on the Mezzanine

Notes is postponed, as set out in “Summary – Priority of Payments” above, items (i) to (v) inclusive) in “Summary – Priority of Payments” above will be applied in replenishing the First Loss Fund to a level of £3,000,000.

If, on any Interest Payment Date, the amount of interest actually received from borrowers under the Mortgages when added to the Issuer’s investment income and payments received by the Issuer from the Inland Revenue by operation of the MIRAS Scheme (see below), certain other income of the Issuer and the amount of the provisions (if any) made in the Shortfall Fund (if any) pursuant to the provisions described in “Mortgage Interest Rate Shortfalls, Minimum Interest Rate and the Shortfall Fund” below is less, after making payment of certain moneys which properly belong to third parties (such as overpayment by borrowers or by the Inland Revenue under the MIRAS Scheme) and of sums due to third parties under obligations incurred in the course of the Issuer’s business (including its liability to mainstream corporation tax) and meeting the fees and expenses of, and commissions payable to, the Trustee, Barclays (pursuant to the Substitute Administrator Agreement) and the Administrator and all amounts payable to the Swap Counterparty under the Swap Agreement due to be paid on that Interest Payment Date, than the interest due or overdue on the Class A Notes on that Interest Payment Date, then the Issuer will draw on the First Loss Fund in order to meet the shortfall. The First Loss Fund may also be applied by the Issuer on any Interest Payment Date towards the payment of interest due or overdue on the Mezzanine Notes except to the extent that the priority of payment of such interest is postponed, as set out in “Summary – Priority of Payments” above. The First Loss Fund may also be used to meet certain out-of-pocket expenses incurred by the Issuer and required to be paid otherwise than on an Interest Payment Date.

The First Loss Fund can be used for temporary funding of Mandatory Further Advances subject to being replenished from the Reserve Fund on the next Interest Payment Date. See “The Issuer – The Reserve Fund” above.

#### **Mortgage Interest Rate Shortfalls, Minimum Interest Rate and the Shortfall Fund**

The Issuer may at any time with the prior consent of NHL draw down under the NHL Subordinated Loan Agreement for the purpose of establishing a Shortfall Fund for the purpose of providing funds, in the manner described in more detail below, to meet any shortfall arising from the interest rates set by the Administrator for the Mortgages averaging less than a specified rate above LIBOR then applicable to the Notes.

If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages and the rate of interest payable on the Reserve Fund is less than 1.50% until January 2004 and 2.00% thereafter above the LIBOR applicable to the Notes at that time, it may do so only if and to the extent that there is a credit balance in the Shortfall Fund (if any) at least equal to the shortfall which would arise at that time and it makes a provision in such Shortfall Fund equal to such shortfall.

Any Shortfall Fund may also be applied, on any Interest Payment Date, after excluding any amount already set aside to meet potential shortfalls, to the extent necessary to pay or provide for items (i) to (vi) inclusive in “Summary – Priority of Payments” above.

The Shortfall Fund can be used for temporary funding of Mandatory Further Advances subject to being replenished from the Reserve Fund on the next Interest Payment Date. See “The Issuer – The Reserve Fund” above.

#### **Payments from Borrowers**

All direct debit payments made by borrowers under the Mortgages purchased by the Issuer on the Closing Date will be paid directly into the Transaction Account (as defined in “Description of the Class A Notes, the Global Class A Notes and the Security” and in “Description of the Mezzanine Notes, the Global Mezzanine Notes and the Security” above). All other moneys paid in respect of the Mortgages purchased by the Issuer on the Closing Date (including cheque payments and redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) will be paid first into a NHL collection account (in the case of NHL Mortgages) or an HLDL collection account (in the case of HLDL Mortgages) and will be transferred on the next following business day, or as soon as practicable thereafter, to the Transaction Account. NHL executed a declaration of trust in August 1992 as supplemented by supplemental declarations of trust dated 19th March 1993, 26th August 1993 and 20th June 1994 and which shall be further amended by a supplemental declaration of trust to be dated on the Closing Date (the “NHL Collection Account Declaration of Trust”) under which it shall declare that all cheque payments, redemption moneys and certain other sums of money in respect of the NHL Mortgages purchased by the Issuer on the Closing Date are held on trust for the Issuer until they are applied in the manner described above. HLDL executed a declaration of trust dated 13th May 1994 which shall be amended by a supplemental declaration of trust dated the Closing Date (the “HLDL Collection Account

Declaration of Trust”) under which it shall declare that all cheque payments, redemption moneys and certain other sums of money in respect of the HLDL Mortgages purchased by the Issuer on the Closing Date are held on trust for the Issuer until they are applied in the manner described above.

### **Arrears and Default Procedures**

The Administrator will regularly give details to the Issuer and the Trustee in writing of Mortgages in respect of which there are arrears and the procedures being followed by the Administrator in connection therewith.

The Administrator will endeavour to collect all payments due under or in connection with the Mortgages in accordance with procedures agreed from time to time with the Trustee and the Issuer but having regard to the circumstances of the borrower in each case. The procedures may include making arrangements whereby a borrower’s payments may be varied and/or taking legal action for possession of the relevant Property and the subsequent sale of that Property. The Court has discretion as to whether, on application by the lender, it orders the borrower to vacate the Property after a default. A lender will usually apply for such an order so that it can sell the Property with vacant possession.

The net proceeds of sale of the Property (after payment of the costs and expenses of the sale) would, together with any amount payable on the related Life Policy or Policies (as defined under “Insurance Coverage – Endowment Life Policies and Term Life Policies” above), be applied against the sums owing from the borrower to the extent necessary to discharge the Mortgage. Where such funds are insufficient to redeem the Mortgage in full a claim would be made under any applicable mortgage guarantee indemnity insurance. Where the funds arising from application of the above procedures are insufficient to pay all amounts owing in respect of a Mortgage, such funds will be applied first in paying interest and costs, and secondly in paying principal, owing in respect of such Mortgage. If there is no applicable mortgage guarantee indemnity insurance or if, after a claim has been paid, an amount is still outstanding (the “outstanding amount”) in respect of the Mortgage, a provision will be made for an amount (to the extent that it represents principal owing in respect of a Mortgage) in the Principal Deficiency Ledger, forming part of the Issuer’s accounts, although circumstances may arise in which this provision is subsequently reduced. The amount will be calculated in the following way: in respect of Current Mortgages, the amount will be the whole of such outstanding amount; in respect of an Arrears Mortgage which is not in possession as at the Closing Date, the amount will be the amount by which the outstanding amount exceeds 25% of the Current Principal Balance of such Arrears Mortgage as at the Closing Date; in respect of an Arrears Mortgage which is in possession at the Closing Date, the amount will be the amount by which the outstanding amount exceeds 50% of the Current Principal Balance of such Arrears Mortgage as at the Closing Date.

### **Mortgage Interest Relief at Source (MIRAS)**

On behalf of the Issuer, NHL will administer the recovery from the Inland Revenue, under the MIRAS Scheme, of sums equal to tax relief at the appropriate rate (currently 15% of the loan interest payable on up to the first £30,000 of the amount of the loan) which have been deducted by borrowers from monthly payments of interest due in respect of their Mortgages while the MIRAS Scheme continues in operation.

### **Further Advances**

Mandatory Further Advances are currently only required to be made to borrowers under the terms of the Stabilised Rate Mortgages or for the purpose of advancing any part of the original advance retained pending completion of construction or refurbishment. If a borrower under a Mortgage requests a Discretionary Further Advance, the Issuer may decide to make that further advance on the security of the Property subject to the Mortgage but the Issuer will have no obligation to make any such further advance on these, or any other, terms. The Issuer may also decide, as part of its arrears and default procedures, to capitalise outstanding interest payable by a particular borrower (that is to say, add the relevant amount to principal amount and treat the arrears as discharged) which will be treated as the making of a Discretionary Further Advance. Discretionary Further Advances by the Issuer in respect of Mortgages in the Mortgage Pool (other than by way of capitalisation of arrears) are subject to an aggregate cumulative limit of £20,000,000. If the Issuer does not wish, or is unable, to make a Discretionary Further Advance, NHL or HLDL may (but is not obliged to) make that further advance on the security of a second mortgage over the Property in question (postponed to the Mortgage). Further advances may only be made on a Mortgage if the NHL or HLDL (as the case may be) lending criteria as far as applicable are satisfied at the relevant time, as provided in the Administration Agreement.

### **Conversion of Mortgages**

On behalf of the Issuer, the Administrator may on the request of a borrower agree to convert his Mortgage or, in the case of a default by a borrower, may itself on behalf of the Issuer and the Trustee elect to convert a borrower’s Mortgage to any other type of mortgage (or to any combination of such other types of

mortgage). The Administrator is not permitted to make such conversion unless certain conditions, including the following, are first satisfied:

- (a) no Enforcement Notice or Protection Notice (as defined in the Administration Agreement) has been given by the Trustee which remains in effect;
- (b) such conversion would not adversely affect the then current ratings of the Class A Notes and the Mezzanine Notes;
- (c) if, and to extent that, Mortgages are converted into Fixed Rate Mortgages, the Issuer having entered into Caps on or before the date of the conversion (and (where appropriate) obtained related guarantees) in respect of the Converted Mortgages;
- (d) on the date of the relevant conversion, there having been no failure by NHL or, as the case may be, HLDL to repurchase any Mortgage which it is required to repurchase under the terms of the Mortgage Sale Agreement in the event of there being a breach of warranty in respect of that Mortgage;
- (e) on the date of the relevant conversion, if the Mortgage is converted into a Stabilised Rate Mortgage, or such other mortgage under the terms of which Mandatory Further Advances are or may be required to be made, the remaining amount of the Reserve Fund (less any amounts to be transferred from the Reserve Fund to the Transaction Account on the next Interest Payment Date) will be sufficient to meet all such Mandatory Further Advances required to be made thereafter on all Mortgages (including such Converted Mortgages) in the Mortgage Pool;
- (f) no conversion must extend the final maturity date of the relevant Mortgage beyond October 2028;
- (g) on the date of the relevant conversion, the Administrator is satisfied that, in the case of a conversion to a mortgage product which would oblige the Issuer to make a Mandatory Further Advance to a borrower, the principal amount outstanding, when aggregated with the maximum amount of Mandatory Further Advance that could be made following such conversion, would not exceed 100% of the most recent valuation of the property; and
- (h) on the date of the relevant conversion, the NHL or (as the case may be) HLDL lending criteria, as the case may be, are satisfied so far as applicable.

The Trustee will not make any investigation as to the manner in which any Converted Mortgages differ from the Standard and Non-standard Mortgages purchased by the Issuer or as to the compliance thereof with the criteria referred to herein.

#### **Insurance**

NHL will, on behalf of the Issuer, administer and maintain the arrangements for insurance in respect of, or in connection with, the Mortgages purchased on the Closing Date to which the Issuer is a party or in which the Issuer has an interest and will make claims on behalf of the Issuer under any such insurance policies when necessary.

#### **Reinvestment of Income**

Each of the Transaction Account and the Escrow Account shall at all times be maintained with a bank either the long-term unsecured and unguaranteed debt of which is rated Aaa by Moody's or whose short-term debt is rated P-1 by Moody's or any of the long-term unsecured and unguaranteed debt of which is rated by Moody's as high as or higher than the then current rating of the Class A Notes or, if no Class A Notes are outstanding, the Mezzanine Notes, and shall not be changed without the prior consent of the Trustee. If any such bank ceases to satisfy the criteria mentioned above the Administration Agreement will contain provisions requiring the Administrator to arrange for the transfer of the relevant account to another bank which does satisfy such criteria.

Sums held to the credit of the Transaction Account and the Escrow Account to which payments of interest and repayments of principal in respect of Mortgages are to be credited and into and out of which all other payments to and by the Issuer are to be made must be invested (a) in sterling denominated securities, bank accounts or other obligations of or rights against entities either the long term unsecured and unguaranteed debt of which is rated Aaa by Moody's or whose short term unsecured and unguaranteed debt is rated P-1 by Moody's; or (b) in such other securities, bank accounts or other rights as would not adversely affect the then current rating of the Class A Notes or, if there are no Class A Notes outstanding, the Mezzanine Notes; or (c) in a Guaranteed Investment Contract with a bank which satisfies the criteria set out above. Such investments and deposits must always mature (or be capable of disposal) on or before the next Interest Payment Date and will be charged to the Trustee and form part of the security for the payment of principal and interest on the Notes. No investment shall be made unless such investment is an asset which a building

society (as defined in the Building Societies Act 1986) has power to acquire by virtue either of Part II of Schedule I to The Building Societies (Commercial Assets and Services) Order 1988 (S.I. 1988 No. 1141) or of regulations in force under section 21 of the Building Societies Act 1986 (being, as at the date hereof, The Building Societies (Liquid Asset) Regulations 1991 (S.I. 1991 No. 2580) as amended by The Building Societies (Liquid Asset) (Amendment) Regulations 1992 (S.I. 1992 No. 2930) and as further amended by The Building Societies (Liquid Asset) (Amendment) Regulations 1995 (S.I. 1995 No. 550)). In addition, funds of the Issuer must be invested in assets the acquisition of which would not prevent the Class A Notes, if they would otherwise do so, from carrying a Risk Asset Weighting of 50% (or such percentage as may for the time being be generally applicable to mortgage backed securities, or if there is more than one Risk Asset Weighting percentage stipulated for mortgage backed securities the lower thereof) under the Capital Adequacy Rules for Authorised Institutions for the time being applied by the Bank of England or under the Capital Adequacy Rules for building societies for the time being applied by the Building Societies Commission.

### **Delegation by the Administrator**

The Administrator may, in certain circumstances, with the consent of the Issuer and the Trustee sub-contract or delegate its obligations under the Administration Agreement. In particular, it is expected that Property Title & Transfer Services Limited (“PTTS”) will be appointed to hold the title deeds relating to the Mortgages and the Life Policies to the order of the Trustee. PTTS will undertake to keep these deeds or documents separately identified from other deeds stored by it.

### **Administration Fee**

The Administration Agreement makes provision for payments to be made to the Administrator. The Issuer will pay to NHL as Administrator an administration fee of not more than 0.37% (inclusive of VAT) per annum on the aggregate interest charging balance of the Mortgages at the beginning of each Interest Period which will be due quarterly in arrear on each Interest Payment Date. A higher fee at a rate agreed by the Trustee (but which does not exceed the rate then commonly charged by providers of mortgage administration services) may be payable to any substitute administrator appointed (other than as administrator of last resort) following termination of NHL’s appointment. If no substitute administrator can be found, Barclays will act as administrator of last resort receiving a fee, calculated in the same manner as stated above for NHL, but substituting a fee of 0.37% (exclusive of VAT).

Each of NHL and HLDL will be entitled to receive from the Issuer for its own account any commissions due to it from insurers out of premiums paid by borrowers as a result of it having placed buildings insurance in relation to the Mortgages with such insurers.

The administration fee and all costs and expenses of the Administrator (including of any substitute administrator and of Barclays under the Substitute Administrator Agreement) and the aforesaid commissions are to be paid in priority to payments due on the Notes. This order of priority has been agreed with a view to procuring the continuing performance by the Administrator of its duties in relation to the Issuer, the Mortgages and the Notes.

### **Redemption**

Under the Administration Agreement, the Administrator will be responsible for handling the procedures connected with the redemption of Mortgages.

In order to enable the Administrator to do this, each of the Trustee and the Issuer will be required to execute a power of attorney in favour of the Administrator which will enable it to discharge sub-charges of the Mortgages in favour of the Trustee, without reference to the Trustee or the Issuer.

**ESTIMATED AVERAGE LIVES OF THE CLASS A NOTES  
AND THE MEZZANINE NOTES AND ASSUMPTIONS**

The average lives of the Notes cannot be predicted, as the actual rate at which Mortgages will be repaid and a number of other relevant factors (including the effect of conversions between different types of Mortgages) are unknown.

Calculations of the possible average lives of the Notes can be made based on certain assumptions. For example, based on the assumptions that:

- (a) the Mortgages are subject to a constant annual rate of prepayment (notwithstanding the effect of any increases in mortgage principal due to Mandatory Further Advances and Discretionary Further Advances and of final releases from the Reserve Fund);
- (b) the Issuer exercises its option to redeem the Notes on January 2004 when the margin on the Notes is increased;
- (c) no Mortgages are sold by the Issuer prior to January 2004;
- (d) no Mortgages are converted;
- (e) no principal losses are realised on any of the Mortgages; and
- (f) no Class A Notes are purchased by the Issuer and cancelled; and

the approximate average life of the Notes, at various assumed rates of prepayment for the Mortgages, would be as follows:

Constant Prepayment Rate (% per annum)	Average Life of Class A Notes (years)	Average Life of Mezzanine Notes (years)
10	5.2	7.9
15	4.4	7.2
20	3.7	6.4

Assumption (a) is stated as an average annualised prepayment rate as the prepayment rate for one Interest Period may be substantially different from that for another. The constant prepayment rates shown above are purely illustrative and do not represent the full range of possibilities for constant prepayment rates.

Assumption (b) reflects the current intentions of the Issuer but no assurance can be given that redemption of the Notes will occur as described.

Assumptions (c), (d), (e) and (f) relate to circumstances which are not predictable.

The average lives of the Notes is subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the estimates above will prove in any way to be realistic and they must therefore be viewed with considerable caution.

## UNITED KINGDOM TAXATION

### Taxation of Interest Paid

Under current Inland Revenue practice the Notes will be regarded as bearer securities for the purposes of section 124 of the Income and Corporation Taxes Act 1988 notwithstanding that they are represented by the Global Notes. Accordingly interest payments on each Note will be treated as interest paid on a “quoted Eurobond” within the meaning of section 124, so long as the Notes are represented by the Global Notes and continue to be quoted on a recognised stock exchange within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the London Stock Exchange is currently a recognised stock exchange). Accordingly where the Notes represented by the Global Notes are held within a recognised clearing system within the meaning of section 124 (Euroclear, Cedel Bank, First Chicago Clearing Centre and the Depositary Trust Company of New York have each been designated as a recognised clearing system for this purpose) payments of interest on the Notes by any Paying Agent (as defined in the Trust Deed) may, under current law and practice, be made without withholding or deduction for or on account of United Kingdom income tax. This paragraph will not apply if the Notes cease to be represented by the Global Notes.

If the Notes cease to be represented by the Global Notes and definitive Notes are issued, the definitive Notes will constitute “quoted Eurobonds” within the meaning of section 124 of the Income and Corporation Taxes Act 1988, provided that they continue to be quoted on a recognised stock exchange and remain in bearer form. Accordingly, under current law and practice, payments of interest may in such circumstances be made by any Paying Agent without withholding or deduction for or on account of United Kingdom income tax where:

- (a) the person by or through whom the payment is made is not in the United Kingdom; or
- (b) the payment is made by or through a person who is in the United Kingdom and:
  - (i) it is proved, on a claim in that behalf made to the Commissioners of Inland Revenue, that the person who is the beneficial owner of the Note and entitled to the interest is not resident in the United Kingdom or, where the interest is by virtue of any provision of United Kingdom legislation deemed to be income of a person other than the person who is the beneficial owner of the Note, on a claim in that behalf made in advance to the Commissioners of Inland Revenue by the other person that such other person is not resident in the United Kingdom. Under current Inland Revenue practice an appropriate form of declaration of non-residence provided to the Paying Agent is sufficient proof; or
  - (ii) the Note and the Coupon are held in a recognised clearing system (as to which see above).

In all other cases, interest will be paid under deduction of United Kingdom income tax subject to any direction to the contrary by the Inland Revenue pursuant to the provisions of any appropriate double taxation treaty. If interest is paid under deduction of United Kingdom income tax, the Issuer is not obliged to pay any additional amount in respect of the Notes.

Where:

- (a) a bank or other person in the United Kingdom obtains payment of any interest (or any warrant for or cheque purporting to be drawn or made in payment of such interest) on behalf of a holder of a Note or Coupon:
  - (i) in circumstances such that payment has not been made by or entrusted to any person in the United Kingdom; or
  - (ii) if the Note in respect of which such payment is made is held in a recognised clearing system (as to which see above); or
- (b) a bank in the United Kingdom sells or otherwise realises any interest (or warrant for or cheque purporting to be drawn or made in payment of such interest) and pays over the proceeds to any person or carries them to his account,

that bank or other person will be required to withhold or deduct for or on account of, or otherwise be assessable in respect of, United Kingdom income tax unless it has been proved, on a claim in that behalf made in advance to the Commissioners of Inland Revenue, that the person owning the Note and entitled to the interest (or, where the Note is held under a trust of which a person is the sole beneficiary in possession, that person) is not resident in the United Kingdom. This exception does not apply if the interest is deemed for United Kingdom tax purposes to be the income of some other person.

The Inland Revenue announced on 28th November 1995 that it is intended to introduce legislation in the 1996 Finance Bill to amend the rules summarised in the preceding paragraph. The Press Release stated that the intended effect of such legislation will be to replace the collection obligation summarised in paragraphs (a)(i) and (ii) above with a more restricted collection obligation which will apply where the person in the United Kingdom is acting as custodian of the Notes concerned and collects interest, arranges to collect the

interest, or buys or sells coupons representing the interest, in each case for a UK investor. These changes are intended to take effect from the date of Royal Assent to the 1996 Finance Bill (likely to be in early May 1996).

The interest payable on the Notes has a United Kingdom source and as such, whether or not paid gross, will be chargeable to United Kingdom tax subject to the provisions of any applicable double taxation treaty. However, under Inland Revenue Extra-Statutory Concession B.13 (the application of which to interest on quoted Eurobonds has been confirmed by Inland Revenue Statement of Practice SP8/84 and which, like all Extra-Statutory Concessions, operates subject to the existence of special circumstances and to its not being used for tax avoidance), no action will be taken to pursue any liability to such United Kingdom tax in respect of persons who are not residents of the United Kingdom for the whole of the relevant year of assessment, except where such persons:

- (a) are chargeable under section 78 of the Taxes Management Act 1970 in the name of a trustee or other person mentioned in section 72 of the Taxes Management Act 1970 or an agent or branch having the management or control of the interest; or
- (b) seek to claim relief in respect of taxed income from United Kingdom sources (insofar as the tax on the interest can be recovered by a set-off against the claim); or
- (c) are chargeable to corporation tax on the interest as the income of a United Kingdom branch or agency of a non-resident company or to income tax as the profits of a trade carried on in the United Kingdom.

However, legislation enacted in the Finance Act 1995 and which has effect from either April 1995 or April 1996, depending upon the circumstances, put on a statutory basis the Inland Revenue practice described above. Under this legislation the tax chargeable on payments of interest on a Note is generally limited to the amount, if any, deducted by a Paying Agent in the circumstances described on the previous page, where the beneficial owner of such interest is not resident in the United Kingdom, unless the interest is attributable to a branch or agency in the United Kingdom, through which the beneficial owner of the interest carries on a trade, profession or vocation in the United Kingdom. Accordingly, the Extra-Statutory Concession will be withdrawn with effect from April 1996.

### **Capital Gains**

The Notes will be qualifying corporate bonds for the purposes of United Kingdom taxation of capital gains and accordingly no chargeable gain (or allowable loss) will arise for these purposes on a disposal of the Notes by a Noteholder.

### **Accrued Income**

A Noteholder who is resident or ordinarily resident in the United Kingdom or carrying on a trade in the United Kingdom through a branch or agency with which the ownership of the Note is connected may be chargeable to United Kingdom tax on income on an amount treated (by rules known as the accrued income scheme contained in Chapter II of Part XVII of the Income and Corporation Taxes Act 1988) as representing interest accrued on the Note at the time of disposal (determined by the Inland Revenue on a just and reasonable basis). A purchaser of a Note will not be entitled to any allowance under the accrued income scheme to set against any deemed or actual interest in respect of the Notes. If for any reason any interest due on an Interest Payment Date is not paid and a Note is subsequently disposed of with the right to receive accrued interest, special rules may apply for the purposes of the accrued income scheme.

### **Proposed Change in Law**

The Inland Revenue published draft legislation on 29th November 1995, which, if enacted as intended in the 1996 Finance Bill will apply to corporate Noteholders resident in the United Kingdom and United Kingdom branches of non-UK corporate Noteholders. These Noteholders will be taxed on income in each accounting period ending after 31st March 1996 by reference to interest, and on any other profits on the Notes (less permitted losses) both on either an accruals or mark to market accounting basis in each such period. Generally, only changes in the value of Notes which occur after 31st March 1996 will be taxed or allowed. There are various other transitional rules relating to accounting periods which straddle 31st March 1996.

For these Noteholders the accrued income scheme referred to under "Accrued Income" above will cease to apply (but will continue to apply for other Noteholders).

### **Stamp Duty**

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Notes or on the issue of a Note in definitive form.

**The above is not a complete summary of the United Kingdom tax law and practice currently applicable and some aspects do not apply to certain classes of taxpayer (such as dealers). Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction outside the United Kingdom should consult their professional advisers.**



## SUBSCRIPTION AND SALE

J.P. Morgan Securities Ltd., Creditanstalt-Bankverein, Goldman Sachs International, Baring Brothers Limited, Lehman Brothers International (Europe) and The Royal Bank of Scotland plc (the “Class A Managers”) have, pursuant to a subscription agreement dated 14th December 1995 (to which NHL and HLDL are also a party) (the “Class A Subscription Agreement”), jointly and severally, agreed, subject to certain conditions, to subscribe for the Class A Notes at 100% of their principal amount. J.P. Morgan Securities Ltd. (the “Mezzanine Manager”) has, pursuant to a subscription agreement dated 14th December 1995 (to which NHL and HLDL are also a party) (the “Mezzanine Subscription Agreement”) agreed, subject to certain conditions, to subscribe for the Mezzanine Notes at 100% of their principal amount. The Class A Managers and the Mezzanine Manager are together called the “Managers”. The Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issues of the Notes. The Class A Subscription Agreement and the Mezzanine Subscription Agreement entitles the Class A Managers and the Mezzanine Manager, respectively, to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A Managers and the Mezzanine Manager against certain liabilities in connection with the offer and sale of the Notes. The Issuer has agreed to pay the Class A Managers a combined management and underwriting commission of 0.20% of the principal amount of the Class A Notes. The Issuer has agreed to pay the Mezzanine Manager a combined management and underwriting commission of 0.50% of the principal amount of the Mezzanine Notes.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the requirements of the Securities Act. Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. Person, except in certain transactions permitted by U.S. tax regulations (terms used in this sentence have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder). Each of the Class A Managers, in respect of the Class A Notes, and the Mezzanine Manager, in respect of the Mezzanine Notes, has agreed that, except as permitted by the relevant Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date (the “Restricted Period”) within the United States or to, or for the account or benefit of, U.S. Persons, and that it will have sent to each dealer to which it sells Notes during the Restricted Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S of the Securities Act.

Each Class A Manager, in respect of the Class A Notes, and the Mezzanine Manager, in respect of the Mezzanine Notes, has represented and agreed that (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part IV of the Financial Services Act 1986 (the “Act”) except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the Act; (ii) it has complied and will comply with all applicable provisions of the Act with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issues of the Notes, other than any document which consists of or of any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the Act, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1995 or is a person to whom the document may otherwise lawfully be issued or passed on.

Other than admission of the Notes to the Official List no action is being taken to permit a public offering of the Notes, or possession or distribution of this Offering Circular or other material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Each Class A Manager, in respect of the Class A Notes, and the Mezzanine Manager, in respect of the Mezzanine Notes, has undertaken not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Offering Circular or any other material relating to the Notes, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any country or jurisdiction where such an offer or solicitation is not authorised.

## GENERAL INFORMATION

It is expected that listing of the Notes on the London Stock Exchange will be granted on 15th December 1995, subject only to the issue of the Temporary Global Notes. The listing of the Notes will be cancelled if the Temporary Global Notes are not issued.

The Notes have been accepted for clearance through Euroclear and Cedel Bank and the Common Code Numbers and ISIN numbers are: Class A Notes, Common Code Number 6239366; ISIN XS0062393664 and Mezzanine Notes, Common Code Number 6239340; ISIN XS0062393409.

Transactions will normally be effected for settlement in sterling for delivery on the fifth calendar day after the date of the transaction.

The following is the text of a report received by the Directors of the Issuer from Touche Ross & Co., Chartered Accountants, the Auditors to the Issuer:

14 December 1995

“The Directors  
Homeloans (No.1) PLC  
St. Catherine’s Court  
Herbert Road  
Solihull  
West Midlands  
B91 3QE

Dear Sirs,

### **Homeloans (No.1) PLC**

Homeloans (No.1) PLC (the “Company”) was incorporated on 14 August 1991 under the name Finance for Home Loans (22) Limited. On 6 December 1995 the Company was re-registered as a public limited company and the Company changed its name to Homeloans (No.1) PLC.

Since its incorporation, the Company has not traded and has not paid any dividends nor made any distributions. It has entered into a number of contracts in connection with the issues of the £112,500,000 Class A Mortgage Backed Floating Rate Notes 2030 and the £10,000,000 Mezzanine Mortgage Backed Floating Rate Notes 2030 and for no other purpose.

We confirm that we have audited the financial statements of the Company for the year ended 30 September 1995 and given an unqualified opinion thereon.

We confirm that, in our opinion, the balance sheet of the Company set out under “General Information” in the Offering Circular dated 14 December 1995 relating to the issues of the Notes referred to above has been properly prepared from the balance sheet of the Company as at 30 September 1995 which we reported on 5 December 1995 in our opinion gave a true and fair view of the state of the Company’s affairs at 30 September 1995.

Yours faithfully,

Touche Ross & Co.  
Chartered Accountants and Registered Auditors”

Touche Ross & Co. have given and not withdrawn their written consent to the issue of this Offering Circular with their report on the Issuer and references to their name included herein in the form and context in which they appear and authorised the contents of that part of the listing particulars for the purposes of section 152(1)(e) of the Financial Services Act 1986.

The following table sets out the audited balance sheet of the Issuer as at 30th September 1995.

At 30th September 1995

	Note	1995
		£
Assets Employed		
Current Assets		
Amount owed by parent company		2
		<u>2</u>
		<u><u>2</u></u>
Financed by		
Equity Shareholders' Funds		
Called up share capital	1	2
		<u>2</u>
		<u><u>2</u></u>

### Accounting Policy

The accounts and notes have been prepared in accordance with applicable accounting standards. The particular accounting policy adopted is described below.

The accounts and notes have been prepared using the historical cost basis of accounting.

### Notes to the Accounts

1. Authorised share capital consists of 100 ordinary shares of £1 each. The issued share capital consists of 2 ordinary shares allotted and paid-up.
2. The company has been dormant throughout the year to 30th September 1995. Consequently, no profit and loss account has been prepared.
3. The company's ultimate parent company is National Home Loans Holdings PLC, a company registered in England and Wales. Copies of the group's financial statements are available from that company's registered office at St. Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE.

So long as the Notes are listed on the London Stock Exchange the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent in London. The Issuer does not publish interim accounts.

Since 30th September 1995 there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or (save as disclosed under "The Issuer - Capitalisation" above) financial position of the Issuer.

The Issuer is not involved in any legal or arbitration proceedings which may have, or have had during the twelve months preceding the date of this Offering Circular, a significant effect on the Issuer's financial position nor, so far as the Issuer is aware, are any such proceedings pending or threatened.

The annual reports and financial statements of the Issuer for the year ended 30th September 1995 have been audited by Touche Ross & Co..

Copies of the following documents may be inspected during normal business hours on any weekday (excluding Saturdays and public holidays) at the offices of Slaughter and May, 35 Basinghall Street, London EC2V 5BD during the period of fourteen days from the date of this Offering Circular:

- (a) the Memorandum and Articles of Association of the Issuer;
- (b) the consent letter of Touche Ross & Co. referred to above;
- (c) copies of the Class A Subscription Agreement, the Mezzanine Subscription Agreement, the Mortgage Sale Agreement, the NHL Subordinated Loan Agreement, the Fee Letter and the Services Letter;
- (d) drafts (subject to modification) of the Trust Deed to constitute the Class A Notes and the Mezzanine Notes (including the forms of the Global Class A Notes, the Class A Notes, Coupons and Talons and the forms of the Global Mezzanine Notes, the Mezzanine Notes, Coupons and Talons), the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, the Agency Agreement, the NHL Collection Account Declaration of Trust, the HLDL Collection Account Declaration of Trust, the Instrument, the Swap Agreement and the initial Caps; and
- (e) the audited annual reports and financial statements of the Issuer for the year ended 30th September 1995.

**REGISTERED AND HEAD OFFICE OF THE ISSUER**

St. Catherine's Court  
Herbert Road  
Solihull  
West Midlands B91 3QE

**ADMINISTRATOR**

**The National Home Loans Corporation plc**

St. Catherine's Court  
Herbert Road  
Solihull  
West Midlands B91 3QE

**TRUSTEE, REFERENCE AGENT, SWAP COUNTERPARTY, INITIAL CAP PROVIDER AND  
PRINCIPAL PAYING AGENT**

**Morgan Guaranty Trust Company of New York**

60 Victoria Embankment  
London EC4Y 0JP

**LEGAL ADVISERS TO THE ISSUER AND THE ADMINISTRATOR**

**Slaughter and May**  
35 Basinghall Street  
London EC2V 5DB

**LEGAL ADVISERS TO THE MANAGERS AND THE TRUSTEE**

**Simmons & Simmons**  
21 Wilson Street  
London EC2M 2TX

**AUDITORS TO THE ISSUER**

**Touche Ross & Co.**  
Colmore Gate  
2 Colmore Row  
Birmingham B3 2BN

**LISTING AGENT**

**J.P. Morgan Securities Ltd.**

60 Victoria Embankment  
London EC4Y 0JP