

# Homeloans (No. 1) PLC, Multi Class Mortgage Backed FRNs

UK-MBS

**TRANSACTION IN BRIEF**

	<i>Class A</i>	<i>Mezzanine</i>
Rating:	<b>Aaa</b>	<b>Baa2</b>
Amount:	£112,500,000	£10,000,000
Coupon:	Libor +18bp	Libor +80bp
Step Up Date:	Jan 2004	Jan 2004
Step Up Margin:	Libor +60bp	Libor +200bp
Final Maturity:	October 2030	October 2030
Interest Payment		
Dates:	January, April, July, October (last business day).	
Issuer:	Homeloans (No. 1) PLC	
Originator:	The National Home Loans Corporation plc, and affiliated entities	
Servicer	The National Home Loans Corporation plc	
Servicer of Last Resort:	Barclays Bank PLC ( <b>Aa2</b> )	
Trustee:	Morgan Guaranty Trust Company of New York ( <b>Aa1</b> )	
Lead Manager:	JP Morgan Securities Ltd	
Asset Characteristics:	First residential mortgages in England and Wales.	

**Summary of Initial Pool  
(provisional as of 6 December 1995. Exc. Accrued Interest)**

Count:	2,772 residential loans	
Prin. Amt:	£126,525,326	
LTV:	Avg: 71%	Max 100+% (6.7%)
Loan Size:	Avg: £45,664	Max £250,000+ (1%)
Performance:	Current (inc <=1 month arrears). 84.7%	
Arrears:	1-3 months 7.3%, 4-6 months 3.3%, 7-12 months 2.7% 12+ months 2%	
Origination:	HLDL 25%. Other NHL 75%.	
Product Type:	Potential Self Certification 56%	
Loan Usage:	Purchase 60% Remortgage 40%	
Interest Rate:	Administered Variable Rate 79% (inc Staff 1%). Indexed Linked. 15% (Libor 14%. Other 1%). Fixed Rate (that reverts to variable) 6%	
Concentration:	43% SE, 16% Ldn, 2.7% North, 8.9% SW, 4.1% E Anglia, 4.7% E Mid, 8.5% W Mid, 2.6% Wales, 4.5% NW, 5% Yorks	
Seasoning:	86 8%, 87 17%, 88 12%, 89 8%, 90 6%, 91 23%, 94 1%, 95 24%	
Mtg Indem. Ins:	Sun Alliance and London Insurance plc ( <b>Aa3</b> ), Legal and General Assurance Society Limited ( <b>Aa1</b> ). Lloyd's of London (partially re-insured by rated entities).	
Structure:	Senior/ Mezzanine/ Subordinated Loan/ Loan Sock, Mortgage Backed Notes.	
Credit Support:	First Loss Fund (initially £2,000,000, rising to £3,000,000), Mortgage Overcollateralisation (approximately £4,000,000) £10,000,000 Class B notes, and Spread.	
Launch Date:	7 December 1995	



## **RATING OPINION**

Moody's has assigned long term credit ratings of **Aaa** to the Class A Notes and **Baa2** to the Mezzanine Notes.

The **Aaa** rating of the Class A Notes is based upon an analysis of the characteristics of the mortgage pool backing the notes, the protection the notes receive from credit enhancement against defaults and arrears in the mortgage pool, and the legal and structural integrity of the issue.

The **Baa2** rating of the Mezzanine Notes is based on the above factors, and on an assessment of the Mezzanine Notes' subordinate position in relation to the Class A Notes.

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

## **Structure**

The issuer is a special purpose vehicle incorporated in England ultimately owned by The National Home Loans Holdings PLC.

The assets backing the structure are first mortgages secured on residential properties in England or Wales that have been sold by NHL and various securitisation vehicles to the issuer. The Issuer funds the purchase price of the loans by issuing the Class A Notes, Mezzanine Notes and Loan Stock.

Start up expenses of the issuer are funded by NHL. These costs are repayable by the issuer though such payments are subordinated to payments of both interest and principal to the Class A and Mezzanine noteholders. NHL has also advanced a separate Subordinated Loan to the issuer to fund the initial First Loss Fund of £2,000,000.

A Reserve Fund of approximately £418,000 will be made available to fund mandatory further advances and retentions upon compliance with certain conditions.

The First Loss Fund also acts as a source of liquidity for the structure and assists the payment of interest in event that income from the mortgages is insufficient to pay Class A and Mezzanine Note interest and various costs. Proceeds from the sale of possessed properties are treated first as income and then principal and this also enhances liquidity. Finally replenishment of the First Loss Fund is senior to the reduction in the Principal Deficiency Ledger, until Class A Notes are no longer outstanding.

No purchases of new mortgages with redemption moneys is permitted, though the Issuer may, subject to various conditions, utilise principal receipts to make discretionary further advances on existing mortgages of up to £20,000,000.

## **Interest Rate Risk**

The issuer receives either an administered or an externally set variable mortgage rate or a temporarily fixed rate on its mortgage assets while paying Libor plus a margin on the notes.

Interest rate risk within the structure is substantially mitigated by the provision of:

1. An interest rate swap provided by Morgan Guaranty Trust Company of New York (**Aa1,P-1**) equal to the outstanding balance of the HLDL fixed rate mortgages in the portfolio.
2. Interest rate caps also provided by Morgan Guaranty Trust Company of New York (**Aa1,P-1**) that substantially hedges the structure from interest rate risk on the NHL fixed rate mortgages in the portfolio.

The Servicer is also obliged to set a mortgage rate on the administered variable rate mortgages within the portfolio so as to charge an "Average Margin" on the whole pool of at least 150bp pa over 3-Month Libor.

The structure does not contain the Threshold Rate Mechanism found in previous NHL securitisations, and thus there is a small risk that the interest rate charged on the mortgage portfolio may be less than that payable on the Notes, plus various expenses. The servicer is however, obliged to set a minimum Average Margin of at least 200bp after the step up date on the Notes, and the residual risk is consistent with the overall level of credit enhancement

within the transaction, and the credit ratings assigned to the Notes.

A Shortfall Fund, may be established by the Servicer to enable it to set an Average Margin on the mortgage pool below the minimum level, to the extent that the fund is able to make good the difference.

### **Credit Enhancement**

The first layer of protection is *spread* in the transaction, which is the difference between (1) the income received from the mortgages and other investments, and (2) the coupon on the notes plus various ongoing costs. The value of this spread was assessed under a variety of adverse conditions which would minimise its effectiveness, including high prepayment speeds, and back-ended losses. Excess spread leaves the transaction to the extent that it is not required to meet ongoing or past losses or to add to one of the various funds.

The existence of mortgages that are currently in arrears with their payments within a structure, typically increases the protection provided by excess spread, as losses are more likely to occur early in the life of the structure. Moody's believes that this benefit is likely to be substantially reduced by provisions within this transaction that prevent certain losses incurred on mortgages that are in arrears at the time of securitisation, from being taken from excess spread that would otherwise leave the transaction. These losses reduce the level of overcollateralisation, or the other forms of credit enhancement, available to the issuer.

The second layer of protection for investors is the *overcollateralisation* of the Notes, as approximately £126 million of mortgage assets (or principal redemption funds) plus the Reserve Fund of approximately £418,000, support £122.5 million of Notes. This was funded through the sale of some of the mortgages at a discount to their principal amount outstanding, and through the issuance of Loan Stock.

The third layer of protection for investors is the *First Loss Fund*, which is initially £2,000,000 or approximately 158bp of the current balance of the initial mortgage pool. An additional £1,000,000 (approximately 79bp) of excess spread is to be trapped and added to this Fund over the first 6 quarters of the transaction. Excess spread is also used to replenish any drawings from the First Loss Fund in prior periods, throughout the life of the transaction.

The final layer of protection for the Class A Notes are the *Mezzanine Notes*.

On each payment date on the Notes, interest on the Class A Notes is paid in priority to payment of interest to the Mezzanine Notes.

If outstanding principal losses and any interest arrears on the notes, after the effect of spread, exceed the first loss fund plus the Mezzanine note balance, then the payment of Mezzanine note interest is subordinated to the rebuilding of the first loss fund and to the reduction of the principal deficiency ledger. Mezzanine interest is therefore effectively subordinate to A Note interest and principal but not Mezzanine principal.

No principal is paid to the Mezzanine Noteholders until the Mezzanine Notes represent approximately 17% of the total Class A and Mezzanine Notes. Thereafter, and subject to certain triggers, prepayments are allocated so as to restore the 17% ratio. The Mezzanine Notes are subject to a minimum balance of £1,000,000 while any Class A Notes remain outstanding.

### **Collateral**

The notes are backed by residential first mortgage loans on properties in England or Wales. Approximately 75% of the pool is comprised of loans originated by NHL prior to December 1991. The remainder have been granted by Homeloans Direct Limited "HLDL", (an entity within the NHL group), since September 1994.

The pool credit quality was affected favourably by:

1. the conservative underwriting criteria employed by HLDL, and
2. the substantial seasoning (averaging over 5.5 years) of the loans originated by NHL. The proportion of the pool originated in 1986, 1987 and 1995 (50%), together with the regional concentration of the portfolio, also reduces the affect of recent declines in house prices.

Negative characteristics included:

1. the inclusion of mortgages currently in arrears with their payments (approximately 15% of the portfolio),
2. the retention by NHL of the right to receive £1,329,554 of overdue interest that was accrued on the above loans prior to the sale of the portfolio to Homeloans (No. 1) plc. Payments received on these individual loan accounts (including property sale proceeds), are allocated to the overdue interest claim retained by NHL, before being passed through to the structure,
3. the 20% of the pool which have been in arrears within the last 12 months, even though they are now current,
4. the high proportion (potentially 56%) of Self Certified loans in the pool. Self Certified mortgages allowed little or no formal verification of a borrower's declared income level provided that certain other criteria, (such as a low LTV) were met,
5. the inclusion of certain mortgages where NHL's normal underwriting practices or record keeping was not followed, and
6. the £1.2m of loans in the portfolio that represent staff mortgages granted to employees and directors of the NHL group.

Almost all of the loans originated by HLDL with a LTV in excess of 70% have the benefit of Mortgage Indemnity policies provided by Lloyd's of London. A substantial element of this policy is re-insured on a cut through basis by highly rated entities.

Many of the older loans originated by other entities within the NHL group at LTV's in excess of 75%, benefit from Mortgage Indemnity contracts from one of Sun Alliance and London Insurance Limited (**Aa3**) or Legal and General Assurance Society Limited (**Aa1**).

The Servicer may agree to convert fixed rate into floating rate mortgages and vice versa, subject to the provision of satisfactory hedging or credit enhancement and may also alter the repayment method between repayment, endowment and pension linked.

### **Servicer**

NHL is the servicer for the transaction. NHL currently employs approximately 300 staff in administering a mortgage portfolio of approximately £1.4bn for the NHL group and associated securitisation vehicles. Barclays Bank plc is the servicer of last resort.

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