FitchRatings

FITCH AFFIRMS FIRST FLEXIBLE SERIES

Fitch Ratings-London-15 March 2013: Fitch Ratings has affirmed First Flexible No. 4 Plc (FF4), which contains loans originated by Mortgage Trust Limited; and First Flexible No. 7 Plc (FF7), which contains loans originated by Mortgage Trust Limited, Mortgage Trust Services Plc and Paragon Mortgages Limited.

Both pools comprise highly-seasoned mortgages, with more than 45% of loans in FF7 originated prior to 1992 compared with 90% of loans in FF4 originated post-2000. Additionally, the FF4 and FF7 pools presently comprise 88% and 4% buy-to-let loans (BTL), respectively.

Furthermore, 80% and 43% of the FF4 and FF7 portfolio comprise flexible loans, which enable borrowers to redraw the amounts that have been previously prepaid. To mitigate the risk that redraws exceed prepayments in any particular period, the transactions' structures include redraw facilities which can be drawn on when there is insufficient principal funds within the transaction to fund the redraws. To date, neither of the redraw facilities has been drawn.

KEY RATING DRIVERS
Stable Performance:
The volume of loans in arrears by three months or more has remained relatively stable for FF4 and FF7 over the past year; standing at 0.15% and 5.8% of the respective current pool balances on the January 2013 payment date compared with 0.14% and 5.3% in January 2012. The higher arrears level in FF7 compared with FF4 is attributable to the high portion of loans (currently 73%) that are linked to SVR in the former pool. The SVR borrowers in FF7 are paying a higher weighted average (WA) interest rate of 6.3% compared with 83% of the Libor-linked borrowers in the latter pool paying a WA interest rate of 2.2%.

Despite the stabilisation of arrears at a higher level for FF7, the high seasoning of the underlying mortgages and the resulting low indexed current loan-to-value ratio (CLTV) of 28% in FF7 (48% in FF4) is expected to result in limited losses, if any, from the sale of properties of future defaulted borrowers.

BTL Loans More Resilient Than Owner Occupied:
Paragon's extensive use of its receiver of rent policies, applicable only to BTL mortgages, has also contributed towards the low level of arrears and subsequent defaults in FF4, particularly when compared with FF7. As of the latest January 2013 IPD, the volume of loans in litigation stood at 0.05% and 3% of the outstanding pool balances of FF4 and FF7, respectively.

Higher Levels of Excess Spread in FF7:
FF7 also benefits from high annualised excess spread level at 3.6% of the current collateral balance due to the existing SVR-Libor differential, particularly in the absence of an interest rate swap. However, in its analysis, Fitch has accounted for the potential reduction in the respective margin and at present views the stresses applied on revenues as having no impact on the notes' ratings.

Balloon Risk Mitigated By Low CLTV:

Since transaction issuance in 2001 (FF4) and 2007 (FF7), both pools have deleveraged significantly to stand at 15% and 25% of their original balances. Of the remaining pool, 84% of FF4 and 77% of FF7 comprise interest-only loans, which Fitch typically associates with a higher probability of default. At present, the agency believes that the balloon risk associated with these loans will be partially mitigated by the low CLTV of the underlying mortgages, a factor driving higher recovery rates.

RATING SENSITIVITIES

The performance of both transactions is largely dependent on the level of defaults and recovery values of properties once a borrower has defaulted. Given the low LTVs and stable arrears performance to date, Fitch does not expect a sudden spike in defaults and losses for these deals. Additionally, in Fitch's view, both transactions are well protected to withstand a rise in arrears and defaults as a result of the steady build-up in credit enhancement since transaction close.

Issuer Account Bank
In both transactions, credit support for the junior tranches comes from the reserve fund which is presently kept with National Westminster Bank Plc (NatWest, 'A'/Stable/'F1').. Although NatWest is presently eligible to perform its role of an account bank, its default could lead to the loss of transaction reserve accounts, as well as operational issues and payment delays as bank accounts are replaced. As a result, this could put pressure on the ratings of the notes.

The rating actions are as follows:

First Flexible No. 4 Plc
Class A (ISIN XS0132692384): affirmed at 'AAAsf'; Outlook Stable
Class M (ISIN XS0132692897): affirmed at 'AAAsf'; Outlook Stable
Class B (ISIN XS0132693192): affirmed at 'AA-sf'; Outlook Stable

First Flexible No. 7 Plc
Class A (ISIN XS0282470797): affirmed at 'AAAsf'; Outlook Stable
Class B (ISIN XS0282471092): affirmed at 'AAsf'; Outlook Stable
Class C (ISIN XS0282471175): affirmed at 'Asf'; Outlook Stable

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Sources of information - in addition to those mentioned in the applicable criteria, the sources of information used to assess these ratings were Investor and Servicer Reports.

Applicable criteria, 'EMEA Residential Mortgage Loss Criteria' dated 7 June 2012, 'EMEA Residential Mortgage Loss Criteria Addendum - United Kingdom' dated 9 August 2012 and 'Global Structured Finance Rating Criteria' dated 6 June 2012, are available at www.fitchratings.com.

Applicable Criteria and Related Research
EMEA Residential Mortgage Loss Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681096
EMEA Criteria Addendum - United Kingdom - Mortgage and Cashflow Assumptions
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685433
Global Structured Finance Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=679923