

## FITCH TAKES RATING ACTIONS ON 4 UK PRIME RMBS

Fitch Ratings-London-04 March 2014: Fitch Ratings has affirmed First Flexible 4 Plc (FF4), First Flexible 7 Plc (FF7) and Friary No.1 plc (Friary) and upgraded eight tranches of Brunel Residential Mortgages Securitisation No.1 plc (Brunel). A full list of rating actions is at the end of this commentary.

### KEY RATING DRIVERS

#### Divergence in Asset Performance

FF4, Friary and Brunel have shown healthy performance with loans in arrears by more than three months (3M+) at 0.2% (FF4), 0.7% (Friary) and 1.7% (Brunel) of the outstanding pool balance and loans with properties in possession at 0.1% for Friary and Brunel and 0.4% for FF4. In contrast, for FF7, 3M+ arrears stood at 3.5% of current pool balance and loans with properties in possession at 2% (only two loans amounting to GBP1m).

The higher level of arrears and loans in possession in FF7 is partially attributable to the higher interest rates payable by borrowers. The portfolio is earning a weighted average (WA) yield of 4.98% compared with the current WA yield for FF4 of 2.3%. In addition, 89% of FF4's current portfolio is buy-to-let (BTL) loans and only 5% for FF7. Paragon's extensive use of its receiver of rent policies, applicable only to BTL mortgages, has also contributed towards the better performance of FF4 compared with FF7.

Given the current low pipeline of defaults for FF4, Friary and Brunel, Fitch expects repossessions and associated losses to remain minimal in the coming year, while the high level of excess spread in FF7 (annualised at 3.3%) is expected to remain sufficient to cover any future losses from the sale of properties taken into possession as the high seasoning of the underlying mortgages and the resulting low indexed current loan-to-value ratio (CLTV) of 18% in FF7 (50% in FF4) is expected to result in limited losses.

Prior to 15 November 2013, both the FF4 and FF7 portfolios comprised loans with flexible features whereby borrowers were able to redraw on past overpayments. The removal of this feature and subsequent cancellation of the respective redraw facilities provided by Barclays has no rating impact on the notes.

#### Strong Credit Enhancement (CE) Supports Upgrade

The robust performance of Brunel 1 has enabled pro-rata amortisation of the notes to continue, benefiting the junior notes of the capital structure. Subsequently, the build-up of CE for Brunel's rated notes to more than double that at closing has led to the upgrade of the class B, C and D notes by one notch. Furthermore, given fully funded non-amortising cash reserves for all four transactions, we expect a further build-up in CE as the notes continue to pay down.

### RATING SENSITIVITIES

The reserve funds in FF4 and FF7 are held with Barclays (A/Stable/F1). As the respective reserve funds are the sole form of credit support for the most junior tranches in both transactions, a default of the account bank could lead to payment interruption risks and subsequently have a negative impact on the notes' ratings.

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

Friary No.1 Plc

Class A1 (ISIN XS 0652305854): affirmed at 'AAAsf'; Outlook Stable

Class A2 (ISIN XS 0652306407): affirmed at 'AAAsf'; Outlook Stable

Brunel Residential Mortgages Securitisation No.1 plc

Class A4a (ISIN XS0289300898): affirmed at 'AAAsf'; Outlook Stable

Class A4b (ISIN XS0289303215): affirmed at 'AAAsf'; Outlook Stable

Class A4c (ISIN XS0289307398): affirmed at 'AAAsf'; Outlook Stable

Class B4a (ISIN XS0289324138): upgraded to 'AA+sf' from 'AAsf'; Outlook Stable

Class B4b (ISIN XS0289324484): upgraded to 'AA+sf' from 'AAsf'; Outlook Stable

Class C4a (ISIN XS0289326265): upgraded to 'A+sf' from 'Asf'; Outlook Stable

Class C4b (ISIN XS0289326935): upgraded to 'A+sf' from 'Asf'; Outlook Stable

Class C4c (ISIN XS0289326935): upgraded to 'A+sf' from 'Asf'; Outlook Stable

Class D4a (ISIN XS0289327313): upgraded to 'BBB+sf' from 'BBBsf'; Outlook Stable

Class D4b (ISIN XS0289327826): upgraded to 'BBB+sf' from 'BBBsf'; Outlook Stable

Class D4c (ISIN XS0289368853): upgraded to 'BBB+sf' from 'BBBsf'; Outlook Stable

Contact:

Lead Surveillance Analyst

Jiixin Huang

Analyst

+44 20 3530 1572

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analyst

Grace Yeo

Associate Director

+44 20 3530 1486

Committee Chairperson

Ketan Thaker

Senior Director

+44 20 3530 1392

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com; Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

Sources of information - Investor and Servicer Reports, as well as loan-by-loan level data.

Fitch's analysis of Representations, Warranties & Enforcement Mechanisms (RWEs) for transactions rated on or after 26 September 2011, can be found in the appendixes of new issue reports for the

respective transaction. In addition see "Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions" dated 17 April 2012 at [www.fitchratings.com](http://www.fitchratings.com). A comparison of the transaction's RW&Es to those typical for that asset class is available by accessing the presale or new issue reports.

Applicable criteria, 'EMEA Residential Mortgage Loss Criteria' dated 6 June 2013, 'EMEA Residential Mortgage Loss Criteria Addendum - United Kingdom' dated 9 August 2012, 'Counterparty Criteria for Structured Finance Transactions' and 'Counterparty Criteria for Structured Finance Transactions: Derivative Addendum', dated 13 May 2013 and 'Global Structured Finance Rating Criteria' dated 24 May 2013, are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:

EMEA Residential Mortgage Loss Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=709915](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=709915)

EMEA Criteria Addendum - United Kingdom - Mortgage and Cashflow Assumptions

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685433](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685433)

Counterparty Criteria for Structured Finance and Covered Bonds

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=707155](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=707155)

Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=707156](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=707156)

Global Structured Finance Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=708661](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=708661)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.