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Research:

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New Issue: First Flexible No. 5 PLC

£500 million mortgage-backed floating-rate notes

Publication date:	04-Oct-2002
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Ratings Detail

Profile

New Ratings	
Class A	AAA
Class B	BBB
Class M	A

Closing date: June 11, 2002

Transaction Summary

Collateral: A pool of first-ranking mortgages over freehold and leasehold "investment home loans" properties located in the U.K.

Participants
Underwriters: Barclays Capital and The Royal Bank of Scotland PLC.
Seller: Arianty No. 1 PLC.
Originator and servicer: Britannic Money PLC.
Standby servicer: First Active PLC.
Trustee: JPMorganChase Bank.
Transaction account: Barclays Bank PLC (AA/Stable/A-1+).
GIC account: Barclays Bank PLC.
Redraw facility provider: Barclays Bank PLC.
Hedging counterparties: Barclays Bank PLC and JPMorganChase Banl
1+).

Rationale

The ratings assigned to the class A, M, and B mortgage-backed floatin
by First Flexible No. 5 PLC reflect the sound payment structure and ca
the transaction, a cash flow analysis to verify that the notes are repaid
scenarios, and the sound legal structure of the transaction.

Other considerations included:

- The strong protection for class A noteholders provided by a com subordinate £22.5 million class M notes, the £12.5 million class cash reserve fund (building up to 1.7% from excess spread), an cover credit losses and income shortfalls;
- The strong protection for class M noteholders provided by a cor subordinate class B notes, the cash reserve fund, and excess s losses and income shortfalls;
- The strong protection for class B noteholders provided by the ca excess spread to cover credit losses and income shortfalls; and
- The issuer's ability to meet interest shortfalls on all rated notes t spread on the mortgages and drawings that may be made unde

Strengths, Concerns, and Mitigating Factors

Strengths

The transaction's strengths that influenced the ratings are:

- The low LTV ratio of the mortgage pool, particularly with resp occupied pool;
- The good proportion of the investment home loans portfolio t rental incomes that can cover the monthly outstanding paym by more than 2.0 times (x);
- A fully performing mortgage portfolio;
- The strong protection provided by the nonamortizing cash re funded to 1.7% of the outstanding balance of the mortgages prefunding) at closing; and
- Britannic Money PLC's origination of four transactions to date

Concerns

Concerns highlighted during the rating process are as follows:

- The nonbalance guaranteed interest rate swap may present high prepayment scenarios.
- An interest rate risk arises because one-month LIBOR is pay a portion of the mortgage loans is linked to the base rate.
- The nature of flexible mortgages allows borrowers to prepay these amounts are redrawable in the future. These redraws a the issuer. There is a concern that under certain severe circu has insufficient available funds to meet these obligations. Fo potential redraw amount is about £33.7 million (6.75%).

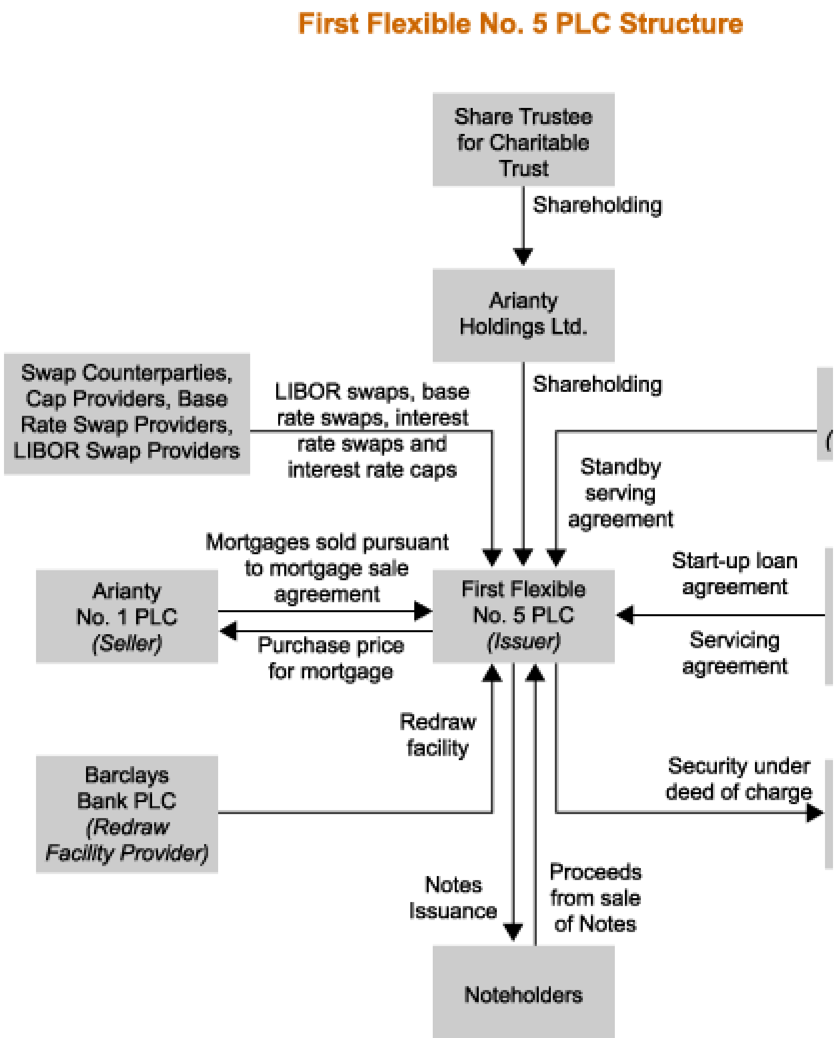
Mitigating Factors

The above concerns are mitigated by the following:

- The risk related to the interest rate swaps was appropriately flow analysis stress testing and the required credit enhancen were factored in this risk.
- The risk was factored into the cash flow analysis by looking a extreme historical differentials; a separate-purpose reserve v additional risk inherent in the base-rate mortgages.
- The potential redraw risk is covered through the redraw facili amounts sized in the cash flow analysis, which were conserv any potential shortfall in the available issuer funds. Amounts facilities in previous transactions originated by Britannic Mon utilized.

Transaction Structure

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



First Flexible No. 5 PLC (Issuer)

The issuer is a public limited company incorporated in England and special-purpose entity (SPE) criteria and its principal objectives hav equitable title to a mortgage portfolio from Arianty No. 1 PLC, to iss manage and administer the mortgages. The accountant's report cor issuer had not traded from its incorporation to the issuance of the m notes. The issuer has two independent directors. The issuer's issue Arianty Holdings PLC and are ultimately held for charitable purpose subsidiaries.

Britannic Money PLC (Originator and Servicer)

Britannic Money was incorporated under the name Mortgage Trust England and Wales under the Companies Act 1985 with private cor status on Aug. 21, 1986. Mortgage Trust was acquired by First Acti Skandinaviska Enskilda Banken in December 1994. Prior to Sept. 2 Money was an indirect, wholly owned subsidiary of First Active PLC agreement between First Active and Britannic Assurance PLC, Brita became a 60% shareholder in Britannic Money on Sept. 29, 2000.

The company now has residential mortgage assets under managen the majority of which is off-balance-sheet. Britannic Money was re-r limited company and its name changed to First Active Financial PL(Trust Ltd. on Sept. 4, 1998 and then to Britannic Money PLC on Fe

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

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

First Active acts as standby servicer in the event that Britannic Mon
obligations as servicer.

Barclays Bank PLC (GIC Provider, Transaction Account Provic Provider, and Cap Provider)

Barclays Bank PLC acts as the guaranteed investment contract (GI
transaction account provider under the bank agreement. It also prov
facility, which may be used by the issuer to fund the purchase of re
compliance with certain tests. In addition, Barclays Bank acts as a l

Transaction Overview

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

The issuer entered into an interest rate swap with an appropriately rate
eliminate interest risk associated with fixed-rate and three-month LIBO
hedge the interest rate risk between the one-month LIBOR payable on
base rate payable on the mortgage loans, the issuer established a res
originator) that has been sized to account for the risk.

Redraw Risk

Substantially, all of the mortgages acquired by the issuer from Ariar
flexible mortgages. The terms of the flexible mortgages allow borrow
amounts that have been paid in excess of the scheduled mortgage
extent that a borrower prepays more than 20% (or lower as agreed
scheduled principal balance at any time, the borrower is required to
fee of 1% of the amount by which the prepayment exceeds 20%. W
are validly made and funded, borrowers ultimately have the obligati
amounts borrowed by the maturity dates of their mortgages.

Standard & Poor's has access to historical data and behavioral patt
the redraw component of the mortgages, which illustrated that the is
sufficient available funds from prepayments and redemptions to ena
potential redraws assuming that the behavioral patterns remain unc
Poor's noted, however, that past behavioral patterns may not neces
predictor of future trends in borrower behavior. Consequently, cons
were made as to the levels of potential redraw requests throughout
mortgages. A redraw facility in an amount equal to £25 million is av
fund potential redraw requests in the event that the issuer has insuf
Standard & Poor's viewed this level as adequate to cover any redra
arise, based on conservative assumptions.

In circumstances where the redraw requests cannot be funded, bor
claims for damages, which may ultimately affect the issuer's obligat
As yet there exists no legal precedent to give clear guidance on hov
potential claims against Britannic Money for redraw requests that ar
cannot be funded.

Note Terms and Conditions

The issuer issued three classes of notes, the class A, M, and B notes. is payable at one-month British pound LIBOR plus a yearly margin of 2 on the class A notes, 80 bps on class M, and 180 bps on class B, step and 270 bps respectively in July 2009. Interest on the notes is payable on the first business day of each calendar month, with the exception of payment, which was made in respect of the period commencing on (ar date and ending on (but excluding) the interest payment date falling in

Interest on the class B notes is deferred and paid after maintaining a fi curing principal deficiencies in the waterfall if the balance of the princip exceeds the class B notes' size. Interest on the class M notes is deferr maintaining the first-loss fund and curing principal deficiencies but prio the class B note coupon if the balance of the principal deficiency ledge the class M and B note principal amount outstanding.

The servicer, on behalf of the issuer and trustee, sets the rates of inter standard variable-rate mortgages. The administrator must ensure that contractual rate of interest applicable to the mortgages, after taking int hedging arrangements and income received from the investment of fur account, is not less than 1.0% on the owner-occupied pool and 1.2% c home loans pool over the relevant one-month note LIBOR.

Collections received in respect of payments from borrowers under the into the collection accounts held at Barclays Bank in the name of the o amounts are transferred to the transaction account held at Barclays Ba issuer.

The collection accounts and the transaction account must each be hel rated at least 'A-1+'. If the bank's short-term corporate rating is lowere accounts are either transferred or guaranteed by a counterparty with a 1+'.

Substitutions

The issuer has the right to purchase substitute mortgages on any in up to the interest payment date falling in July 2005. The issuer purc mortgage loans to the extent it receives scheduled principal from re and redemptions and these receipts are not needed to fund redraws these mortgages is subject to certain criteria and credit assessment detailed in the underlying documentation. To the extent prepaymen are not needed to fund redraws, these payments are passed throug

Mandatory Redemption

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

The conditions for pro rata redemption of the class M notes are that

- The initial credit enhancement for the class A notes must hav
- The principal deficiency ledger must be equal to zero;
- The arrears test must be met; and
- The size of the class M and B notes must be at least 2x the p the largest loan outstanding.

The conditions for pro rata redemption of the class B notes are that

- The initial credit enhancement for the class A and B notes m
- The principal deficiency ledger must be equal to zero;
- The arrears test must be met; and
- The size of the class B notes must be at least 2x the principa largest loan outstanding.

Optional Redemption

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

- If the notes become subject to a withholding tax;
- On the interest payment date falling in July 2009 or on any p thereafter;
- If at any time the principal amount outstanding of the notes is initial aggregate principal amount outstanding of the notes at
- On the second interest payment date after any determinatior determined that the redraws made by borrowers on the colle ending exceed the sum of principal collections, the credit bal fund, and the available facility under the redraw facility.

Final Redemption

The notes will be redeemed in full no later than the interest paymen 2034.

Credit and Liquidity Support

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

Collateral Details

The mortgage pool totaled £467.9 million (comprising 5,316 loans) at A loans in the pool were originated by Britannic Money between 1996 an been administered by Britannic Money since origination. The notes iss amount equal to the principal outstanding of the pre-funded loans, a to million. These loans are to be formally purchased by the issuer no late interest payment date.

Features of the mortgage pool include the following:

- Each loan is secured by a first legal charge of a residential prop
- Of the total mortgages, 47.22% are capital repayment mortgage interest-only mortgages by value. Of the interest-only mortgages originated as endowment mortgages.
- Of the mortgages, 32.13% are investment home loans mortgage owner-occupied mortgages.
- The weighted-average LTV ratio of the mortgage pool is 61.51%
- The weighted-average LTV of the mortgage pool, assuming the redraws, is 63.87%.
- The average outstanding mortgage balance (drawn) is £81,019. balances range between about £17 and £1,750,050. The aggreg amount is £33,689,023.
- The average potential redraw amount is £6,337.
- The largest concentration of mortgages by geographical area is

England (including London) with 59.2% of all the mortgages in t
- The weighted-average seasoning is 5.4 months.
- The weighted-average rental cover for the investment home loa

Standard & Poor's Stress Test

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

A feature of the portfolio is the buy-to-let mortgages, which make up 3: (by drawn balance). These include professional lettings. The levels of originator are considered to be conservative, but the characteristics of create additional risks relative to a typical prime mortgage portfolio, no weighted-average LTV ratio of this portfolio.

The cash flow analysis simulated the performance of this portfolio with documented structure under certain stressful scenarios. In addition, th the swaps, caps, and cash reserves to prevent the interest rate misma accounts of the issuer are required to be with suitably rated providers.

Surveillance Details

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

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