First Flexible No. 5 plc
Multi Class Mortgage-Backed FRNs

UK-RMBS

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This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provide to Moody's as of May 2002.
*Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign **definitive** ratings to this transaction. The definitive ratings may differ from the **prospective** ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk..*

TRANSACTION IN BRIEF

	Class A	Class M	Class B
Rating:	(P)**Aaa**	(P)**A1**	(P)**Baa2**
Amount:	£[465]mm	£[22.5]mm	£[12.5]mm
Margin over 1m Libor:	[•] bp	[•] bp	[•] bp
Step Up Date:	[July 2009]	[July 2009]	[July 2009]
Step Up Margin:	[•] bp	[•] bp	[•] bp
Final Maturity:	[June] 2034	[June] 2034	[June] 2034

Interest Payment Dates:	[1st August 2002] ([1]st business day of each month)
Issuer:	First Flexible No. 5 PLC
Originator	Britannic Money plc, First Active plc
Seller:	Arianty No. 1 plc
Administrator:	Britannic Money plc
Basis Swap Provider:	JPMorgan Chase Bank (**Aa2**, **Prime-1**)
Fixed Rate Swap Provider:	Barclays Bank PLC (**Aa1**, **Prime-1**)
GIC Provider:	Barclays Bank PLC (**Aa1**, **Prime-1**)
Principal Paying Agent:	JPMorgan Chase Bank (**Aa2**, **Prime-1**)
Trustee:	JPMorgan Chase Bank (**Aa2**, **Prime-1**)
Lead Managers:	Barclays Capital and The Royal Bank of Scotland
Closing Date:	[•]

Summary of Provisional Pool (As at [30th April 2002])

Assets:	First residential and investment mortgages in England, Wales, Scotland and Northern Ireland
Count:	[5,316] residential loans
Principal Amount:	£[467,909,054]
LTV:	Weighted Avg: [61.5]% (excluding undrawn amounts)
Loan Size:	Avg: £[88,019] (drawn amount)
Loan Usage:	Purchase [39]%, Remortgage [61]%
Seasoning:	Weighted Avg: [5.4] Months
Credit Support:	Reserve Fund ([170]bps of original Note balance), Class M Notes ([4.5]% of original Note balance), Class B Notes ([2.5]% of original Note balance), and Excess Spread.
Liquidity Support:	Reserve Fund, Liquidity Reserve Ledger ([3]% of the current balance of current balance of the Notes less the balance of the Reserve Fund, if certain performance triggers are not met).

RATING OPINION

Moody's has assigned prospective long term credit ratings of (P)**Aaa** to the Class A Notes, (P)**A1** to the Class M Notes and (P)**Baa2** to the Class B Notes issued by First Flexible No. 5 PLC.

The Notes are backed by a portfolio of residential owner occupied ("OO") and "buy to let" ("BTL") mortgage loans originated by Britannic Money plc ("BM") and First Active plc. In September 2000, Britannic Assurance acquired a 60% stake in BM from Irish mortgage lender First Active plc (A3, Prime-2). First Active plc retain a 40% stake in BM. At launch, [32%] of the pool will consist of BTL loans, although this proportion may change over the life of the deal, owing to, among other things, the substitution of new collateral into the transaction. [99.12]% of these loans are flexible loans – the borrower is able to redraw partial prepayments of principal.

The prospective rating of the Class A Notes is based upon:

1. A loan by loan analysis of the characteristics of the mortgage pool backing the Notes
2. The quality of the performance data supplied by Britannic Money.
3. The protection that the Notes receive from credit enhancement and liquidity support against defaults and arrears in the mortgage pool.
4. The role of First Active plc (**A3**, **Prime-2**) as standby servicer.
5. The £[25] million Redraw Facility provided by Barclays Bank PLC (**Aa1**, **Prime-1**).
6. The role of Barclays Bank PLC and JPMorgan Chase Bank (**Aa2**, **Prime-1**) as swap and cap providers.
7. The legal and structural integrity of the issue.

The prospective rating of the Class M and Class B Notes is based on the above factors, and on an assessment of the extent of their subordination to the Class A Notes.

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

Moody's issues prospective ratings in advance of the final sale of securities, and these ratings only represent Moody's preliminary opinion. Upon a conclusive review of the transaction and associated documentation, Moody's will endeavour to assign definitive rating to the Notes. A final rating may differ from a prospective rating.

Moody's will monitor the transaction on an ongoing basis to ensure that the transaction continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports.

COLLATERAL

Buy to Let loans

32% of the loans in the provisional pool are Buy to Let (BTL) loans. Loans of this type have, through the recent benign economic environment, shown relatively low default rates, but our analysis of the volatility of outcomes allows for:

The uncertainty generated by the still relative novelty of this product and the absence of data through an economic downturn; and

Certain characteristics of the product which suggest that it may be more susceptible to default in a downturn. A BTL borrower is likely to prioritise payments due under his own home loan in times of economic stress. And there is some risk that the conditions and locations of these properties on repossession and sale might on average be of a lower standard than could be expected with owner occupied properties.

In mitigation:

- these loans were underwritten on the basis of rental valuation, so there is a reduced dependency on the borrower's personal income and there is some assurance as to the "rentability" of the property. BM generally looks for a debt service coverage ratio of [125-130%] of the initial starting rate under the loan. Across the provisional pool, actual coverage averages [196.9%].
- on enforcement, if there is a tenant in place, a receiver could be appointed who would assume control of the property and collect the rent from the existing tenant thereby reducing severity. The tenancy agreements are generally limited to [6] month assured shorthold tenancies (AST's) so BM could normally take possession on expiry, and then sell the property with vacant possession.
- much of the delay when enforcing owner occupied properties is taken up with the eviction process (issue concerning re-housing the occupier). In the few BTL repossession cases that BM has thus far seen, the courts have somewhat taken a less liberal views of the rights of the borrower on the basis that the loan is a quasi-commercial arrangement.
- during a downturn, there may be greater demand for rented accommodation, as potential buyers may be unable or unwilling to buy their own home.
- the BTL product is generally likely to attract the better borrowers. They will be existing home owners (a condition to obtaining a BM BTL loan) who are looking to invest accumulated income outside of the traditional personal savings routes. And at least [•]% of the borrowers in the provisional pool have more than one BTL loan from BM (some may have loans with other lenders) suggesting that they are "professional" rather than "amateur" landlords; although it might also suggest over-exposure of the borrower to the BTL market.

Flexible loans

[99]% by balance of the loans in the provisional pool are flexible loans. The flexibility refers to the borrower's ability to redraw principal that is prepaid ahead of his agreed amortisation schedule. So under an interest-only loan, all partial payments of principal (other than full redemption) are redrawable. Under an repayment/annuity loan, all payments of principal (other than full redemption) in excess of those due under the monthly instalment are redrawable. The borrower can only be refused a redraw if he is in breach of the terms of the loan. There is no re-underwriting process at the time the redraw is requested.

It is, however, a term of the flexible loans that, if the amount redrawable exceeds [20%] of the original loan amount, then the borrower must pay a commitment fee of at least [1%] per annum on the excess, or he can cancel that excess so it is no longer redrawable. This should disincentify borrowers from running a large redrawable balance.

In the case of the provisional pool, redrawable amounts make up only [6.7]% of the initial pool balance.

Potential behaviour of a borrower under a flexi loan may differ from that expected under a conventional non-redrawable loan. Prepayments by the flexi-borrower will not necessarily reduce severity on repossession –he can draw down on his equity to meet monthly instalments in hard times undoing the effect of prepayments. Depending on the flexi-borrower's circumstances and the magnitude of the downturn, redraws might be a valuable source of liquidity so decreasing default frequency. Or they may just serve to increase loss severity.

However, the bulk of historical repayment activity under conventional non-redrawable loans is in fact full redemption. So partial non-redrawable prepayments may be of limited value to a "normal" pool in any event. BM have provided data that shows that, on average over the last [12] months, redemptions have comprised [•]% of full redemptions and only [•]% of partial (redrawable) prepayments, roughly the same story. Notably, with BTL (as opposed to owner-occupier) flexi loans, there is a reduced incentive to prepay. Tax deductions are currently available for interest paid on BTL loans - prepayment reduces the benefits of these deductions.

But because of the possible effects of redraws, our Loan by Loan analysis (see our Special Report of April 1998 called “Moody’s Approach to Rating UK Residential Mortgage-Backed Securities”) focuses on the balance of the loans plus amounts redrawable, rather than the current balance only.

Despite the redraw right, borrowers still have to make their regular monthly payments, which in most cases are collected by Direct Debit from the borrower's bank account. Nonetheless, properly timed redraws by the borrower could hide the true arrears position in the pool - ie if otherwise delinquent borrowers redraw in advance to meet interest payments.

Borrowers are also allowed to ask for payment holidays, but are not entitled to these as of right. Broadly, a payment holiday will only be given if the borrower is entitled to a redraw. The amount will be added to the capital balance of the loan.

Summary

On balance, we believe that there is some uncertainty as to how the pool would perform during an economic downturn due to the absence of data on these products. The enhancement levels address this uncertainty and the possibility that, both the BTL and the flexi features may mean that these loans will exhibit average or better than average performance in good times but greater loss volatility in times of stress.

Other factors:

About [59.2]% of the pool is located in London or the South East. Geographic concentration increases the volatility of losses in a pool. And these areas have historically been among the most volatile areas in terms of house price changes.

Many of the borrowers have more than one loan with BM. Although multiple loans could mean over exposure to the sector, BM will have the right to consolidate these loans should only one of them default. This may act as an incentive to the borrower to keep all his loans current, although it will only be possible to offset losses on one loan with surplus on another should both loans form part of this securitisation pool.

Substitution

BM can substitute new mortgage loans into the deal in its first [3] years subject to a number of conditions including the following:

- The resultant aggregate outstanding loan balances and redrawable amounts in the pool will not exceed the same amount as at closing.
- The Reserve Fund (and, where required, the Liquidity Reserve Fund) have not been drawn upon in the previous month.
- The debit balance on the PDL does not exceed 0.1% of the current balance of the mortgages.
- The Redraw Facility is not fully drawn.
- The weighted average LTV across the pool will not increase by more than 2% from the figure as at closing (using historic valuations).
- BM is still performing its obligations under the transaction and is not in insolvency.
- The geographic concentrations within London and the South East will not exceed [80]% of the current balance of the pool.
- The Issuer is not aware that substitution would cause a downgrade of the Notes.
- Appropriate hedging is in place if the loans are capped or fixed.
- The aggregate principal balance of all arrears loans is less than [2.5%] of the then outstanding principal balance of the loans, and the amount of all outstanding arrears is less than [2]% of the total amount of interest due on the loans then outstanding over the last 12 months.

In addition, no more than [3]% of the pool balance as at the end of any month may be substituted in the following quarter. Substitute loans will be bought using principal if it is not needed to pay interest, fund the Liquidity Reserve Fund, repay the Redraw Facility, or meet new redraw requirements.

Conversions/Further Advances

BM may convert loans from one type to another. It may also make further advances under loans in the securitisation and sell these to the Issuer provided that certain requirements are met, including requirements similar to those described for substitution. In addition, the total cumulative amount of further advances is limited to [10%] of the initial outstanding pool balance, and a loan must be performing before a further advance can be made.

SET OFF

Flexi loans also create certain liquidity risks to the deal. Each borrower is legally entitled to a redraw provided he is not in default under the mortgage conditions. And the borrower could, if not provided with the redraw, sue BM for damages representing his loss caused by BM's contractual default. Importantly, the borrower would have no right to sue the Issuer as the obligation to provide redraws remains with BM at all times including after perfection of the transfer of the loans to the Issuer. But the borrower would be entitled to off set any damages he was awarded against amounts due under his loan - even after a BM insolvency, irrespective of whether the redraw was requested or due after a BM insolvency and irrespective of whether the transfer of the loans has been perfected or notified.

The amount of the claim will most likely represent the cost of obtaining alternative finance elsewhere. This could be relatively material if the borrower could only obtain a second mortgage where interest would be charged at higher rates. The borrower is obliged to mitigate his loss so would have to seek finance at market rates. He could well obtain a remortgage at rates comparable to those applicable under his loans with BM as BTL loans are currently widely available.

The risk of a borrower making a claim and setting off against his loan is mitigated in several ways.

Principal redemptions received from borrowers are allocated first to meeting redraw obligations of BM.

If the amount of redraws exceeds the amount of principal collected, the Issuer can draw under a Redraw Facility provided by Barclays Bank PLC (**Aa1**, **Prime-1**). The facility equals £[25m] (or [5]% of the initial Note balance). In subsequent periods, the facility is repaid from principal received under the mortgage loans, if not needed to fund further redraws in priority to Note amortisation.

If the facility is fully drawn and there are insufficient principal collections to meet redraw obligations, then BM has the option to call the deal, and is still contractually obliged to make those redraws.

The amount available under the Redraw Facility will decrease following the end of the substitution period, the amount that can be drawn is limited to [5]% of the outstanding Note balance, subject to a minimum of [£15m].

Barclays has agreed that, if it ceases too have a Prime-1 rating, it will find a replacement Redraw Facility provider that is rated Prime-1. The facility may also be termed out at that point pending the replacement assuming its obligations.

The probability of redraws exceeding the principal receipts and amounts available under the redraw facility is very low, and the residual risk of a damages claim against the Issuer is consistent with the enhancement in the deal.

HEDGING

[•]% of the loans charge interest at a margin over BM's own standard variable rate (SVR). BM will operate a Threshold Interest rate Mechanism (TIM) whereby it will agree to keep the charging rate on these loans at a minimum rate of Libor applicable to the rated Notes plus [120bps] on the BTL loans, and [100bps] on the OO loans. Alternatively, it can set the rate at a lower level and deposit the cash difference for next quarter with the Issuer.

At the outset of the transaction, however, [•]% of the SVR loans are capped or fixed rate loans (the capped/fixed rate period rolls off by [•]). Whilst in a capped or fixed period, loans will be hedge via caps or swaps provided by JPMorgan Chase Bank (**Aa2**, **Prime-1**) and Barclays Bank. The caps may not be perfect hedges - they may hedge a capped rate higher than the rate applying to the loan. In such a case, BM will deposit the cash difference, for the period of the cap, with the Issuer.

Approximately [•]% of the loans charge interest at a margin over Bank of England Base Rate. These loans can treated as receiving [6]bps below 1m Libor based on the long term historical difference between these 2 bases. In addition, the Issuer will establish a Base Rate Reserve, funded at closing at [20]bps of the initial balance of the Notes. This fund is sized to reflect historical volatility in the mean 6bps difference between the 2 bases[1]. The amount in this ledger will be released into the waterfall to the extent that the difference between Libor and Base Rate exceeds [•]bps. The fund can be replenished from Excess Spread in the waterfall back up to 20bps of the original Note balance.

[•]% of the loans are Libor linked. On average, these charge [bps] over Libor. Most ([•]%) of these loans charge 1m Libor (as do the Notes) and reset on the same day as the Notes. No hedging is required. The remaining charge 3m Libor and reset quarterly. 3month Libor / 1 month Libor basis risk will most likely be hedged.

CREDIT ENHANCEMENT

Investors in the Notes are protected from the effect of credit losses on the pool in a number of ways.

Excess Spread

The first layer of protection for investors in the Notes is the Excess Spread in the transaction, which is the difference between:

- The income receivable by the Issuer under the mortgage loans and its other investments (such as the GIC), and under the Caps and Swaps provided by Barclays Bank and JPMorgan Chase Bank; and
- Interest due by the Issuer on account of its various ongoing costs and expenses, including interest due under the Notes and the Swaps.

The actual Excess Spread in the deal will depend upon a number of factors such as the level of arrears in the deal, and the coupons on the Notes (which step up after [•]). The Excess Spread will amount to approximately [62]bps per annum on the closing date.

Excess Spread is used first to top up the Reserve Fund to its target amount (see below). Any surplus is then to be applied in redeeming the Notes to the extent that a property has been liquidated following repossession and a principal loss on the loan incurred and recorded on the Principal Deficiency Ledger (PDL). In this way, Excess Spread is trapped in the transaction and used to redeem Notes to the extent of principal losses incurred in the pool.

The value of Excess Spread as credit enhancement to the transaction depends on a number of factors such as prepayment speeds (as prepayment speeds increase, the cash value of Excess Spread decreases) and the timing of losses in the pool (Excess Spread is available on a “use it or lose it” basis and so is paid back to the Seller if not used to cover losses).

Reserve Fund

The second layer of protection for investors in the Notes is the Reserve Fund. The Reserve Fund at closing equals [£7m], but it is intended to build up to its target amount of [£8.5m] ([170]bps of the original balance of the Notes) from Excess Spread.

Principal Subordination

The third layer of protection for investors is the subordination of the principal balance of more junior classes of Notes. The Notes will at all times redeem sequentially, starting with the Class A’s, then the Class M’s, then finally the Class B’s.

Interest/Interest Subordination

Further protection is provided via the subordination of interest due under the Notes; on each interest payment date, Class A interest is paid before Class M interest, which in turn is paid before Class B interest. Unpaid interest on Class M and Class B Notes can be deferred until later interest payment dates.

1 The spread between BoE Base Rate and 1m Libor has been modelled via a mean reverting stochastic process subspecified by a Lognormal volatility component.

Interest/Principal Subordination

In addition, in certain circumstances junior interest is subordinated to payment of principal under a senior class of Notes. This occurs where the debit balance of the PDL exceeds the size of the amount of junior class then outstanding. In this case, Excess Spread is used to top up the Reserve Fund and to reduce the debit balance of the PDL (ie to redeem Notes) before it is used to pay junior Note interest.

LIQUIDITY

Several levels of protection are available to investors to counter the effect of temporary shortfall in cashflows from the loans caused by delinquencies in the pool or any interruption in the servicing functions or cash collection functions.

Principal paying Interest

The first source of liquidity is the Issuer's ability to use principal receipts under the mortgage loans to meet its senior expenses obligations, including interest due under the Notes. Where there is an income shortfall, principal receipts will be applied in priority to repayment of the Redraw Facility, funding new redraws and Note amortisation.

Reserve Fund

The second source of liquidity is the Reserve Fund which is available to cover interest shortfalls under the Notes. The value of the liquidity support provided by the Reserve Fund is increased by the fact that the Reserve Fund is topped-up from Excess Spread in priority to reduction of debit balances on the PDL.

Liquidity Reserve Ledger

In addition, a Liquidity Reserve Ledger will be established to trap principal receipts under the loans if the balance of loans with an arrears balance in excess of 3 monthly payments exceeds 15% of the initial balance of the pool. The target amount to be trapped will equal 3% of the current balance of the Notes less the current balance of the Reserve Fund (floored at zero). The Liquidity Reserve Ledger can be used to service Note interest but only after the Reserve Fund has been depleted. This protects the transaction against possible cashflow interruptions following a servicer default/insolvency.

COLLECTIONS AND BANK ACCOUNTS

Payments under the Loans are collected by BM as administrator under a number of arrangements including by direct debit, cheque, standing order and cash, and are paid directly into the Trust Accounts at The Royal Bank of Scotland (**Aa1**, **Prime-1**) and/or Barclays Bank PLC (**Aa1**, **Prime-1**). Cash in the Trust Accounts will be transferred by BM no later than the business day following their receipt to the Issuer's Transaction Account with Barclays Bank.

SERVICING

BM is the primary servicer of the loans. BM's former sole parent company, First Active plc (**A3**, **Prime-2**) has agreed to act as standby servicer in the event that BM defaults on its obligations. This is a hot standby servicing arrangement given the connection between the two companies. The risk of there being cash flow interruptions on a servicer default (where cash trapped at the insolvent servicer level) is materially reduced.

STRUCTURE

The Issuer is a special purpose vehicle incorporated in the UK and ultimately owned by a charitable trust. The mortgage loans and other related rights were sold by way of silent equitable assignment to the Issuer which in turn created first fixed security over such assets in favour of the trustee for the Noteholders. The Issuer funded the purchase price of the loans using the proceeds of the Notes.

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