First Flexible No.6 plc

Mortgage Trust Limited
RMBS
UK

PLEASE NOTE: *This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of [January 2004]. 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.*

CLOSING DATE:
[January 2004]

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PROSPECTIVE RATINGS

Class	Rating	Amount[a]	% of Total	Legal Final Maturity	Expected Maturity
A1	(P)**Aaa**	£[•]	[0.00]	01/12/2035	01/12/2033
A2	(P)**Aaa**	€[•]	[0.00]	01/12/2035	01/12/2033
A3	(P)**Aaa**	$[•]	[0.00]	01/12/2035	01/12/2033
M1	(P)**A2**	£[•]	[0.00]	01/12/2035	01/12/2033
M2	(P)**A2**	€[•]	[0.00]	01/12/2035	01/12/2033
Total		£[425,000,000]	100		

The ratings address the timely payment of interest, and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks, such as those associated with the timing of principal prepayments and other market risks, have not been addressed and may have a significant effect on yield to investors.

[a] £ equivalent

OPINION

Strengths of the Transaction

- The underwriting and origination procedures used by Mortgage Trust Limited ("MTL");
- The strong performance of loans secured on let property previously originated by MTL. The arrears and losses observed in other First Flexible securitisations have been much lower than in many prime mortgage backed transactions from major mortgage originators;
- The amount of available Excess Spread. The servicer has pledged to maintain the gross margin in the deal at a minimum level based on the pool product mix until the Note step up date, and 1.90% thereafter, unless it has procured additional funds into the transaction; and
- The existence of a Standby Servicer, being a joint venture of two suitably rated entities.

Weaknesses and Mitigants

- The collateral consists almost fully of Investment Home Loan ("IHL") products, as outlined below under "Collateral Portfolio"
- The Issuer is a non-orphan SPV, and may have additional risks as outlined below under "Transaction Structure."
- This transaction does not benefit from a separate liquidity facility, but Moody's believes that the transaction has adequate liquidity support as outlined below under "Liquidity."

STRUCTURE SUMMARY

Issuer:	First Flexible No.6 plc, a UK registered SPV which is consolidated on Paragon Group's balance sheet
Structure Type:	True Sale, Residential Mortgage Backed
Seller:	Arianty No.1 plc, a UK registered warehouse SPV, located in Solihull
Originator:	Mortgage Trust Limited, Epsom ("MTL", **NR**)
Servicer:	Mortgage Trust Services plc, Epsom ("MTS", **NR**)
Back-up Servicer:	GHL Mortgage Services Limited (**NR**), a subsidiary of Countrywide Inc.
Interest Payments:	Quarterly in arrears, March, June, September and December, starting in June 2004
Principal Payments:	Quarterly unscheduled on each Interest Payment Date
Principal Paying Agent:	Citibank, N.A. (**P-1**, **Aa1**)
Note Trustee:	Citicorp Trustee Company Limited
Arranger/Lead Manager:	JPMorgan (Arranger and Lead Manager), Deutsche Bank (Lead Manager)

COLLATERAL SUMMARY

Receivables:	£329,095,847 loans to individuals backed by mortgages on UK rental and owner occupied properties
Number of Contracts:	3,141
Number of Borrowers:	3,131
Geographic Diversity:	Diversified across the UK, excess concentration in SE and London
WA LTV (Market Value):	Current: 78.84%, Original: 79.10%
WA Remaining Term:	21 years
Seasoning:	6 months
Delinquency Status:	0.61% of the loan volume in arrears > 1 month, 0.16% more than 3 months
Historical Loss Experience:	NA

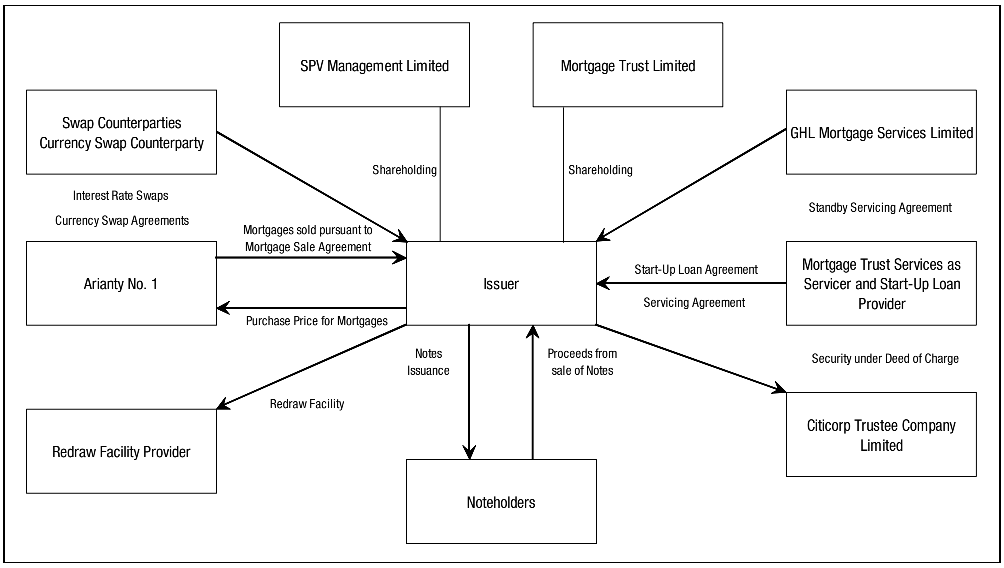
CREDIT SUPPORT

Class	Subordination	Reserve Fund	Excess Spread*	Total
A-1	10%	2.9%	Available	12.9%
A-2	10%	2.9%	Available	12.9%
A-3	10%	2.9%	Available	12.9%
M-1	0%	2.9%	Available	2.9%
M-2	0%	2.9%	Available	2.9%

* 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 March 2009). The Excess Spread will amount to approximately [75]bps per annum on the closing date.

Structural and Legal Aspects

In general similar structure as previous transaction.



Issuer is consolidated into Paragon Group.

The Issuer is a special purpose vehicle incorporated in England ultimately owned by The Paragon Group of Companies PLC. Typically, UK RMBS transactions rated by Moody's have featured an orphan SPV as issuer. The fact that the Issuer is not an orphan company introduces additional risks not typically found in UK RMBS transactions:

- as a matter of UK tax law, it is possible that a subsidiary can be fixed with liabilities for tax of another member of its group. In this case, Moody's expects that an extensive range of undertakings will provide assurance that the chance of such secondary liabilities arising is remote.
- a company organised in the UK can be wound up by a shareholders' resolution. Whilst, in the circumstances, there might be little advantage to be gained by a liquidator of the Issuer's parent company by doing this, Moody's stress scenarios envisage such an attempt being made.

VAT Grouping

VAT grouping as in previous Paragon transactions applies.

In common with other transactions of the Paragon Group rated by Moody's (see the "Paragon Mortgages" and "Finance For People" deals), but unlike the vast majority of UK RMBS transactions, the Issuer is grouped with the rest of the Paragon Group for VAT purposes. The VAT grouping means that services or goods provided between members of the VAT group are not subject to VAT (which would otherwise be payable on servicing fees); but, as a consequence, each member of the VAT group is jointly and severally liable for VAT liabilities of all other members of that group. A long standing arrangement is in place to mitigate this risk:

1) A Trust Account, held in the name of Citicorp Trustee Company Limited as trustee with National Westminster Bank Plc (**Aa1**, **Prime-1**), can be used by any member of the VAT group to meet group VAT liabilities should Paragon Finance PLC ("PFPLC", which, as representative member, is primarily liable for group VAT) fail to do so. PFPLC must maintain a minimum balance in the Trust Account equal to the greater of (1) £120,000, (2) 1.2 times the actual VAT liability for the Paragon VAT Group in the last two accounting periods, or (3) 1.2 times the sum of the estimated VAT liabilities of the Paragon VAT Group for the current and next succeeding accounting periods.
2) If PFPLC fails to pay VAT due by it, or fails to maintain the minimum balance in the Trust Account), the Issuer will automatically be de-grouped; on a degrouping, no new VAT liabilities will arise but any that exist remain. The VAT authority cannot prevent a company from de-grouping, but it must be given 90 days' prior notice.

Moody's is comfortable with existing risk mitigants.

Moody's is, however, satisfied that the combination of the non-petition covenants given by the parent companies in the Paragon group, and the share ownership structure of the Issuer, effectively eliminate this risk. The legal opinions confirm this point.

Use of issuance proceeds.

Available reserves are funded by a Start up loan, provided by the servicer.

The Issuer will use the proceeds from the issuance of two classes of notes (Class A denominated in £, EUR and US$ and class M denominated in £ and EUR) to purchase a portfolio of UK residential mortgage loans originated by MTL from Arianty. The Issuer utilised the proceeds of a Start up loan provided by MTS to fund the several reserve funds.

Issuer may pre-fund further mortgages up to the first interest payment date.

To the extent that the proceeds of the Notes (£[425m]) exceed the Purchase Price of the Initial Mortgages purchased (approx. £[330m]), the Issuer shall as soon as practicable purchase further mortgages from Arianty (the "Pre-Funded Mortgages") according to certain criteria at any time on or after the issue date but no later than the first Determination Date ([June 2004]) after the issue date. Such Pre-Funded Mortgages shall also comply with the eligibility criteria applicable to the Initial Mortgages.

Sequential redemption during principal lock-out period.

Prior to an enforcement event, each class of Notes will be subject to redemption in part on each Interest Payment Date in accordance with the Priority of Payments. This priority foresees a sequential redemption until a set of triggers allow a switch to a pro-rata allocation of principal proceeds. The Class M principal lock-out period exists, provided that there are still class A Notes outstanding,

1. up to the Interest Payment Date falling [five] years after the Issue Date and
2. on any Interest Payment Date thereafter, where
    - the sum of the Reserve Fund and the aggregate Principal Amount Outstanding Class M Notes as a percentage of the sum of the aggregate Principal Amount Outstanding of the Class A Notes and Class M Notes is not at least twice that same percentage as at the Issue Date,
    - a Principal Deficiency exists,
    - the aggregate principal balance of Mortgages in respect of which there are arrears of an amount greater than £100 is greater than [2.5]% of the then aggregate principal balance of the Mortgages comprised in the Mortgage Pool, or
    - the sum of the Principal Amount Outstanding of the Class M Notes is less than two times the principal balance of the largest Mortgage or group of Mortgages in the name of a single Borrower.

Optional redemption must be in whole.

Optional redemption by the issuer of all notes at their principal outstanding may occur

a) in the event of certain tax changes affecting the Notes;
b) on the Issuer Call Date (Interest Payment Date falling in [March 2008] or on any Interest Payment Date falling thereafter;
c) on any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes is equal to or less than 10% of the aggregate principal amount of such Notes on the Issue Date;
d) on the second Interest Payment Date after it is determined that the aggregate amount of Redraws made during the immediately preceding period exceeds the maximum redraw amount.

In such cases the issuer shall provide noteholders with no more than 60 nor less than 20 days' notice of its intention to redeem.

Liquidity

Available liquidity provisions.

Several levels of protection are available to investors to counter the effect of temporary shortfall in cash flows 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 cash flow interruptions following a servicer default/insolvency.

Hedging Arrangements

Interest rate risk mainly hedged.

Treatment of SVR linked loans.

4.62%/3.65% (by number/volume) of the loans currently or after the product switches charge interest at a margin over MTL's own standard variable rate (SVR). MTL 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 [140]bps on the IHL loans, and [100]bps on the owner occupied loans. Alternatively, it can set the rate at a lower level and deposit the cash difference for next quarter with the Issuer. After the step-up date the TIM will be set at [190] bps.

Hedging of fixed rate loans.

In the case of fixed rate loans some swaps at Arianty's level have been in place with JPMorgan Chase Bank and Barclays. It is expected to transfer or cancel and amend these swaps so that they fit the transaction's profile and ensure that the margin is met, by fixing the pay rate at Mortgage Rate less Threshold Margin, paying 3 Month LIBOR on the other side. There may be a small amount of mismatches remaining mortgages with less than 12 month Fixed Rate period - no additional hedging will be made in respect of these loans.

Basis risk from BRT loans covered.

Approximately 9.49%/11.97% (by number/volume) of the loans charge interest at a margin over Bank of England Base Rate. These loans can be treated as receiving margins on average 9bps below 3m Libor based on the long term historical difference (1993 – 2003) between these two bases. In addition, the Issuer will establish a Base Rate Reserve, funded at closing at [15]bps of the initial balance of the BRT Mortgages. This fund is sized to reflect historical volatility in the mean 9bps difference between the 2 bases. The amount in this ledger will be released into the waterfall to the extent that the difference between Libor and Base Rate exceeds 15bps. The fund can be replenished from Excess Spread in the waterfall back up to [15]bps of the balance.

Majority of loans is linked to 3m LIBOR, no hedging required.

85.89%/84.38% (by number/volume) of the loans are Libor linked. On average, these charge 159bps over Libor. Most of these loans charge 3m Libor (as do the Notes) and reset on the same day as the Notes. No hedging is required.

Negligible risk of 1m LIBOR linked loans remains unhedged.

The remaining charge 1m Libor (0.035/0.04% by number/volume) and reset monthly. No additional hedging will be made in respect of these loans.

FX risk is hedged through swaps.

The issuer will enter into FX swaps to hedge the currency mismatch due to all assets being denominated in £ and having liabilities in EUR and US$.

Income reduction through discount loans is mitigated by the discount reserve.

53.65%/47.95% (by number/volume) of the loans have discounts on their current interest rate which roll off over the next 3 years. However, in order to eliminate the loss of income due to such discounts, the issuer establishes a Discount Reserve. This reserve covers the discount loans' margin differentials up to the threshold margin. It is funded initially by a portion of the start up loan and afterwards on each interest payment date equal to an amount of the expected (scheduled) differential.

Credit Enhancement

Credit Enhancement available.

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 income receivable by the Issuer under the mortgage loans and its other investments, and under the Caps and Swaps provided by Barclays Bank and JPMorgan Chase Bank; and
- Monies released from the Discount Reserve and Base Rate Reserve; less
- 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 and its value as Credit Enhancement 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 [March 2009]), 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). The Excess Spread will amount to approximately [75]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.

Reserve Fund.

Arrears Event trigger increases RF to 3.4% by trapping excess spread.

The second layer of protection for investors in the Notes is the Reserve Fund. The Reserve Fund at closing equals £[12.325]m (2.9% of initial note balance) and will be replenished by Excess Spread up to the required amount. If at any time, more than 3% of the mortgages are 2 months or more in arrears (an "Arrears Event"), the Required Amount of the Reserve Fund will increase to 3.4% of the initial note balance through the capture of excess spread and must be maintained at that level thereafter, even if arrears subsequently fall.

RF may amortise in line with the notes after the step-up date, subject to the arrears level and a floor amount.

After the step-up date and subject to the non occurrence of an Arrears Event and provided that the current credit enhancement[1] for each of the outstanding classes of notes is twice as high as the initial credit enhancement, the required amount amortises in line with the note balances until the floor amount is reached. The floor amount equals the greater of (a) £[2,000,000], (b) two times the aggregate principal balance of the largest Mortgage or two times the aggregate principal balance of the largest group of Mortgages in the name of a single Borrower as at the immediately preceding Determination Date, (c) the aggregate principal balance of the five largest Mortgages or the aggregate principal balance of the five largest groups of Mortgages in the names of single Borrowers as at the immediately preceding Determination Date and (d) two times the aggregate of senior expenses (up to and including the interest on the notes).

[1] In relation to Class A provided by the Reserve Fund and Class M notes, in relation to Class M, provided by the Reserve Fund.

Principal Subordination.

The third layer of protection for investors is the subordination of the principal balance of more junior classes of Notes. The Notes, subject to certain conditions, will redeem sequentially, starting with the Class A's, then the Class M'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. Unpaid interest on Class M notes can be deferred until later interest payment dates.

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 (i.e. to redeem notes) before it is used to pay junior interest.

COLLATERAL PORTFOLIO

Almost all loans are IHL products and drive the risk profile of this transaction.

94.4%/95.5% (by number/volume) of the loans in the provisional pool are Investment Home Loans (IHL). 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:

1. The uncertainty generated by the still relative novelty of this product and the absence of data through an economic downturn; and
2. Certain characteristics of the product which suggest that it may be more susceptible to default in a downturn. An IHL 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. MTL generally looks for a debt service coverage ratio of 125-130% of the initial starting rate under the loan.
- 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 MTL could normally take possession on expiry, and then sell the property with vacant possession. Additionally the property could be sold to another home loan investor with event in-situ.
- A high proportion of pool's borrowers are "semi-professional" landlords, which somewhat mitigates the risk outlined under (2.)

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 IHL repossession cases that MTL 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 IHL product is generally likely to attract the better borrowers. They are likely to be existing home owners (a condition to obtaining a MTL IHL) who are looking to invest accumulated income outside of the traditional personal savings routes. And the majority of the borrowers in the provisional pool have more than one IHL from MTL (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 IHL market.

Flexible loans provide additional risk.

98.69%/98.76% (by number/volume) 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 redraw-able.

Under a 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 (£3,547,687) make up only 1.08% 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. Notably, with IHL (as opposed to owner-occupier) flexi loans, there is a reduced incentive to prepay. Tax deductions are currently available for interest paid on IHLs – 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 – i.e. 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 IHL 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:

Further risk features. Regional concentration.

About 59% of the pool balance 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.

Multiple loan exposure to a single borrower.

Some of the borrowers have more than one loan with MTL. Although multiple loans could mean over exposure to the sector, MTL 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. For multiple loans to corporate borrowers, MTL requires personal guarantees from the respective director(s).

Conversations and further advances.

MTL 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 risk may arise.

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 MTL for damages representing his loss caused by MTL's contractual default. Importantly, the borrower would have no right to sue the Issuer as the obligation to provide redraws remains with MTL 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 MTL insolvency, irrespective of whether the redraw was requested or due after a MTL 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 MTL as IHL 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 MTL.

Risk of excess redraws by borrowers is mitigated by a Redraw facility.

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 £[21.25]m (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 MTL 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 fulfilment of certain conditions, the amount that can be drawn is limited to initially 5% of the outstanding Note balance, subject to a minimum of £[12.75]m. The facility limit will amortise after the first interest payment date in line with the note balance, but never below the floor amount, which equals 3% of the initial note balance

Barclays has agreed that, if it ceases to have a **Prime-1** rating, it will find a replacement Redraw Facility provider that is rated **Prime-1** or a stand by drawing into an issuer account is made. 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.

ORIGINATOR, SERVICER AND DUE DILIGENCE

Britannic Money is now Mortgage Trust.

Mortgage Trust Limited (MTL) was incorporated under the name of Mortgage Trust Limited and registered in England and Wales under the Companies Act 1985 with private company limited liability status on 21 August 1986. On 30 June 2003, the entire share capital of MTL was acquired by The Paragon Group of Companies PLC ("Paragon"). Prior 2003, MTL was owned as to 60% by Britannic Assurance plc and as to 40% by First Active plc. MTL was re-registered as a public limited company and its name changed from MTL to First Active Financial plc on 4 September 1998 and then to Mortgage Trust plc on 16 February 2001 and to MTL in 2003.

Since incorporation, MTL has become an established centralised lender operating in a variety of niche markets in the United Kingdom. The principal activity has been the origination and servicing of residential first mortgage loans on properties located across the United Kingdom. Growth strategy in recent years has been to continue to operate as a niche provider of mortgages, differentiating products by offering different features from those offered by other lenders, rather than competing on price.

In each of November 1999, May 2000, October 2000, July 2001 and June 2002, MTL securitised flexible mortgage assets into securitisation issues (First Flexible No.1 plc, First Flexible No.2 plc, First Flexible No.3 plc, First Flexible No.4 plc and First Flexible No.5 plc). The registered office of MTL is now in Solihull, West Midlands.

Moody's has recently conducted an update operations review at the Mortgage Trust's offices in Epsom.

MTL's origination and servicing policy is in line with the market standard and given the experience with previous securitisations, Moody's is comfortable that MTS can cover its obligation as servicer in a rating adequate manner.

Under the servicing agreement MTS has the option to transfer the servicing to PFPLC (servicer for Paragon Mortgages deals) and to other Paragon Group entities, whereas in the latter case a prior confirmation of the notes' rating is necessary.

MOODY'S ANALYSIS

Moody's applied its standard UK RMBS approach.

To determine the prospective ratings on the tranches of Notes, Moody's has used the following methodology, which is applied to most European residential mortgage backed securities markets, focusing on the collateral, the market sector, the originator, the economic environment and the structure used for the transaction.

Deriving the loss distribution.

In order to achieve a tranching for the notes a loss distribution of the pool must be determined. Because of the large number of loans and supporting historical data, Moody's assumes that losses are log normally distributed.

To determine the shape of the curve, two parameters are needed: the expected loss and the volatility around this expected loss number. These parameters are found by looking at two important data sources: historical loss data and Moody's loan by loan (LbL) model.

Examples of data include market and sector wide performance data, the performance of other securitisations, and originators' data.

Moody's LbL model determines a number ("Aaa CE") representing the enhancement which would be required for a pool of mortgages to obtain a rating consistent with **Aaa** under highly stressed conditions. This number is produced by looking at each loan's characteristics individually. The model assumes stressed recovery rates (through house price decline), time to recovery, interest rates and costs to foreclosure. The Aaa CE number and the expected loss number are subject of committee discussions and are used to derive the lognormal distribution.

Tranching and notes' rating.

Having obtained the loss distribution of the pool, a cash flow model is used to assess the impact of structural features of the transaction, including the priorities of interest and principal, liquidity, the value of excess spread. The sum of the loss experience per note class weighted by the probability of such loss scenario determines the expected loss on each tranche and hence the rating, which is consistent with Moody's "Idealised Expected Loss" table for each rating category.

RATING SENSITIVITIES AND MONITORING

Moody's will monitor portfolio's and counterparties' performance.

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. Any subsequent changes in the ratings will be publicly announced and disseminated through Moody's Client Service Desk.

Moody's will also publish a quarterly Performance Overview for this transaction, which will contain summarised information about the asset and note performance, as well as any other material changes affecting the Notes.

RELATED RESEARCH

More detailed research on UK RMBS available on Moody's website.

For a more detailed explanation of Moody's approach to this type of

transaction as well as similar transactions please refer to the following reports available on www.moodys.com. Performance Overviews are currently also available for both previous Moody's rated First Flexible transactions.

- Moody's Approach to Rating UK Residential Mortgage-Backed Securities – 6th May 1998
- The Lognormal Method Applied to ABS Analysis – 27th July 2000
- Performance of UK Residential Mortgages 1985-2000 – 2nd September 2002
- UK RMBS 2002 Third Quarter Review – 25th November 2002

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