Homeloans (No. 3) PLC

UK-MBS

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Transaction in Brief:

	Class A1	Class A2	Class B	Class C
Rating:	**Aaa**	**Aaa**	**A2**	**Baa3**
Amount:	£135,000,000	£252,050,000	£30,100,000	£31,250,000
Coupon:	Libor + 6.25bp	Libor + 14bp	Libor + 35bp	Libor + 80bp
Step Up Date:	Oct 1998	Oct 2002	Oct 2002	Oct 2002
Step Up Margin:	Libor+ 20bp	Libor+ 45bp	Libor+ 75bp	Libor + 175bp
Final Maturity:	May 2028	May 2028	May 2028	May 2028
Interest Payment Dates:	January, April, July, October (last business day)			

Issuer:	Homeloans (No.3) PLC
Originator:	The National Home Loans Corporation plc, and Home Loans Direct Limited
Servicer	The National Home Loans Corporation plc
Servicer of Last Resort:	Barclays Bank PLC (**Aa2**)
Trustee:	Morgan Guaranty Trust Company of New York (**Aa1**)
Lead Managers:	JP Morgan Securities Ltd / ING Barings
Asset Characteristics:	First residential mortgages in England, Wales and Scotland

Summary of Provisional Pool (7th October 1996):

Count:	9,735 residential loans
Prin. Amt:	£468,359,072
LTV:	Avg: 73%Max 100+%(4.7%)
Loan Size:	Avg: £48,111 Max £250,000+ (0.7%)
Performance:	Current (inc <=1 month arrears). 63% Arrears: 1-3 months 11.6%, 3-6 months 7.9%, 6-12 months, 8.6%, 12+ months 8.9%
Origination:	HLDL 4%. NHL 96%
Product Type:	Potential Self Certification 78% Stabilised Rate Loans 6.1%
Loan Usage:	Purchase 40% Remortgage 60%
Interest Rate:	Administered Variable Rate 93%., Libor linked 6.7% Fixed Rate (that reverts to variable) 0.3%
Concentration:	40% SE, 16% Ldn, 1.2% North, 8.2% SW, 4.3% E Anglia, 6.2% NW 8.2% E Mid, 9% W Mid, 2.4% Wales, 3.2% Yorks, 1% Scot
Seasoning:	86 2%, 87 8%, 88 13%, 89 29%, 90 36%, 91 9%, 95 0%, 96 4%
Mtg Indem. Ins:	Sun Alliance and London Insurance plc (**Aa3**), Legal and General Assurance Society Limited (**Aa1**) C.E. Heath (Lloyd's of London)
Structure:	Senior/Class B Mezzanine/Class C Mezzanine/Subordinated Loan/ Loan Stock, Mortgage Backed Notes
Credit Support:	First Loss Fund £8,726,972 or (2% of the mortgage principal balance), Mortgage Overcollateralisation (approximately 3.25%), £30,100,000 Class B Notes, £31,250,000 Class C notes, and Spread
Launch Date:	22 October 1996

Moody's Investors Service
Global Credit Research

March 1997

Rating Opinion

Moody's has assigned long term credit ratings of **Aaa** to the Class A1 and A2 Notes, **A2** to the Class B Notes and **Baa3** to the Class C Notes (together the "ratings").

The rating of the Class A Notes is based upon an analysis of the characteristics of the mortgage pool backing the notes, the protection the notes receive from credit enhancement against defaults and arrears in the mortgage pool, and the legal and structural integrity of the issue.

The ratings of the Class B and Class C Notes are based on the above factors, and on an assessment of the extent of their subordinate position within the structure.

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

Structure

The issuer is a special purpose vehicle incorporated in England ultimately owned by The National Home Loans Holdings PLC.

The assets backing the structure are first mortgages secured on residential properties in England, Wales or Scotland that have been sold by various companies within the NHL group including Home Loans Direct Limited (HLDL). The Issuer funds the purchase price of the loans by issuing the Class A, Class B and Class C Notes (together the "Notes") and the Loan Stock.

Start up expenses of the issuer are funded by HLDL. These costs are repayable by the issuer though such payments are subordinated to payments of both interest and principal to the Class A, Class B and Class C noteholders. NHL has also advanced a separate Subordinated Loan to the issuer to fund the initial First Loss Fund of £8,924,972.

The First Loss Fund also acts as a source of liquidity for the structure and assists the payment of interest in the event that income from the mortgages is insufficient to pay Note interest and various costs. Proceeds from the sale of possessed properties are treated first as income and then principal and this also enhances liquidity. Finally replenishment of the First Loss Fund is senior to the reduction in the Principal Deficiency Ledger, until Class A Notes are no longer outstanding.

The structure does not posses a Reserve Fund to fund mandatory further advances on the mortgage portfolio or the potential for the deferral of interest on the stabilised rate mortgages. Moody's believes that the liquidity provided by the First Loss Fund and by the structure of the transaction, is consistent with the ratings assigned to the notes.

No purchases of new mortgages with redemption moneys is permitted, though the Issuer may, subject to various conditions, utilise principal receipts to make discretionary further advances on existing mortgages of up to £80,000,000.

Interest Rate Risk

The issuer receives either an administered or an externally set variable mortgage rate or a temporarily fixed rate on its mortgage assets while paying Libor plus a margin on the notes.

The Servicer is obliged to set a mortgage rate on the administered variable rate mortgages within the portfolio so as to charge an "Average Margin" on the whole pool of at least 150bp pa over 3 Month Libor.

The structure does not contain the Threshold Rate Mechanism found in some previous NHL securitisations, and thus there is a small risk that the interest rate charged on the mortgage portfolio may be less than that payable on the Notes, plus various expenses. The servicer is however, obliged to set a minimum Average Margin of at least 200bp after the step up date on the Class A2 Notes, and the residual risk is consistent with the overall level of credit enhancement within the transaction, and the credit ratings assigned to the Notes.

The structure also benefits from an interest rate swap provided by Morgan Guaranty Trust Company of New York (Aa1), in respect of fixed rate mortgages within the pool. This swap is not of primary importance in Moody's current analysis of the Notes due to the small proportion of the pool affected (0.3%), the limited remaining time before reversion to variable rate (between 1 and 34 months), the Average Margin mechanism, and the overall credit enhancement within the transaction.The Servicer may also agree to convert fixed rate into floating rate mortgages and vice versa, and may also alter the repayment method between repayment, endowment and pension linked. There is no requirement to hedge such further interest rate exposure, unless the then current rating of the notes would be adversely affected.

A Shortfall Fund, may be established by the Servicer to enable it to set an Average Margin on the mortgage pool below the minimum level, to the extent that the fund is able to make good the difference.

Credit Enhancement

The first layer of protection is spread in the transaction, which is the difference between (1) the income received from the mortgages and other investments, and (2) the coupon on the notes plus various ongoing costs. The value of this spread was assessed under a variety of adverse conditions which would minimise its effectiveness, including high prepayment speeds, and back-ended losses. Excess spread leaves the transaction to the extent that it is not required to meet ongoing or past losses or to add to one of the various funds.

The existence of mortgages that are currently in arrears with their payments within a structure, may increase the protection provided by excess spread, as losses are more likely to occur early in the life of the structure, when excess spread may otherwise leave the transaction.

The second layer of protection for investors in the rated Notes is the over-collateralisation of the Notes, equal to approximately 3.25% of the initial principal balance (excluding accrued but upaid arrears) of the mortgage pool. This is funded through the sale of some of the mortgages at a discount to their principal amount outstanding, and through the issuance of Loan Stock, such that approximately £462.9m of mortgage assets (or principal redemption funds) support £448.4m of Notes.

The third layer of protection for investors in the rated Notes is the First Loss Fund, which is 2% (approximately £8,924,972) of the initial balance of the initial mortgage pool (excluding accrued but unpaid arrears). Excess spread is also used to replenish any drawings from the First Loss Fund in prior periods, throughout the life of the transaction.

The balance of the First Loss Fund may amortise in line with the mortgage collateral, subject to certain severe triggers, to the extent that the remaining balance of the First Loss Fund equals 4% of the principal balance of the outstanding mortgage pool.

The Class B Notes and Class C Notes also provide protection for the Class A Notes.

On each payment date on the Notes, interest on the Class A Notes is paid in priority to payment of interest to the Class B Notes, and both are paid in priority to interest on the Class C Notes.

If outstanding principal losses and any interest arrears on the notes, after the effect of spread, exceed the first loss fund plus the Class B and Class C note balance, then the payment of Class B and Class C note interest is subordinated to the rebuilding of the first loss fund and to the reduction of the principal deficiency ledger. Class B and Class C interest is therefore effectively subordinate to A Note interest and principal but not Class B and Class C principal.

No principal is paid to the Class B and Class C Noteholders until the Class B and Class C Notes together represent approximately 27.5% of the total Class A, Class B and Class C Notes. Thereafter, and subject to certain triggers, prepayments are allocated so as to restore the 27.5% ratio. Principal payments allocated to the Class B and Class C Notes are divided in proportion to these Classes original principal balances. The Class B and Class C Notes are subject to a minimum balance of £4,250,000 while any Class A Notes remain outstanding.

Collateral

The notes are backed by residential first mortgage loans on properties in England, Wales or Scotland. Approximately 96% of the pool is comprised of loans originated by NHL prior to December 1991. The remainder have been granted by Homeloans Direct Limited "HLDL", (an entity within the NHL group), since September 1994.

Unlike previous NHL transactions, the arrears accrued on non performing loans were sold to the structure, and financed through the issue of Notes. In previous NHL transactions these arrears were retained by NHL who was repaid with the first cashflows generated by the asset.

The pool credit quality was affected favourably by;

1. the evaluation of mortgage borrowers undertaken in respect of the HLDL loans
2. the substantial seasoning (averaging approximately 7 years) of the loans originated by NHL.

Negative characteristics included:

1. the inclusion of mortgages currently in arrears with their payments (approximately 37% of the provisional portfolio). This is partially offset by the fact that borrowers representing 30% of the arrears balances (approximately 11.2% of the portfolio) have, on average, paid at least their current monthly obligations over the past 6 months.
2. the 13.7% of the provisional pool which have been in arrears within the last 12 months, even though they are now current.
3. the high proportion (potentially 78%) of Self Certified loans in the pool. Self Certified mortgages allowed little or no formal verification of a borrower's declared income level provided that certain other criteria, (such as a low LTV) were met, and
4. the inclusion of certain mortgages where NHL's normal underwriting practices or record keeping was not followed.
5. non-standard products within the portfolio include approximately £1.7m of shared ownership mortgages, and £8.2m of mortgages on let properties. These were all originated by HLDL.

Almost all of the loans originated by HLDL with a LTV in excess of 70% have the benefit of Mortgage Indemnity policies provided by Lloyd's of London. A substantial element of this policy is re-insured on a cut through basis by highly rated entities.

Many of the older loans originated by other entities within the NHL group at LTV's in excess of 75%, benefit from Mortgage Indemnity contracts from one of Sun Alliance and London Insurance Limited (**Aa3**) or Legal and General Assurance Society Limited (**Aa1**).

Servicer

NHL is the servicer for the transaction. NHL currently employs approximately 330 staff in administering a mortgage portfolio of approximately £1.2bn for the NHL group and associated securitisation vehicles. Barclays Bank plc (**Aa2**) is the servicer of last resort.