United Kingdom
Debt Management Office **HM TREASURY**

MARKET NOTICE: OUTLINE OF THE UK GOVERNMENT'S 2009 ASSET-BACKED SECURITIES GUARANTEE SCHEME

1. The UK Government's 2009 Asset-backed Securities Guarantee Scheme (the “2009 Scheme”) will operate as set out below.

2. The assets eligible for the 2009 Scheme will be residential mortgage-backed securities (RMBS) backed by residential mortgages over property in the UK. HM Treasury will keep the scope of the 2009 Scheme under review.

Purposes of the 2009 Scheme

3. The 2009 Scheme forms part of the Government's measures, announced on 19 January 2009, to support lending in the UK economy, and represents an extension of the 2008 Credit Guarantee Scheme for unsecured debt issuance by UK incorporated banks and building societies (the “2008 Scheme”).

4. In summary, the 2009 Scheme is intended to:

   - improve banks’ and building societies’ access to wholesale funding markets
   - help support lending to creditworthy borrowers
   - promote robust and sustainable markets over the long term, and
   - protect the taxpayer.

Access to the 2009 Scheme

5. The institutions eligible to participate in the 2009 Scheme will be the same institutions as are currently eligible to participate in the 2008 Scheme. Allocation principles for the

2009 Scheme will be kept under review, but initial allocation will be on a corporate group basis.

Guarantees

6. The Guarantee under the 2009 Scheme will be provided by HM Treasury (as "Guarantor") in relation to eligible instruments issued by an entity (an "Issuer") sponsored by the relevant participating institution. Two types of Guarantee will be provided.

Credit Guarantee

7. The first type (the "Credit Guarantee") will be an unconditional and irrevocable guarantee of the timely payment of all amounts contractually due from the relevant Issuer in respect of the eligible instruments.

Liquidity Guarantee

8. The second type (the "Liquidity Guarantee") will apply to (i) the failure of an Issuer to exercise a call right in respect of the eligible instruments in accordance with the terms of the relevant documentation; or (ii) the failure of an Issuer to purchase eligible instruments at the option of the holders of those eligible instruments in accordance with the terms of the relevant documentation. The participating institution will be required to undertake to the Issuer to put the Issuer in funds to meet the call or the purchase obligation, as the case may be, on the due date. In each case, the Guarantor will irrevocably undertake that, if the Issuer fails to pay the relevant price to the holder of such eligible instruments on the due date, the Guarantor will purchase such eligible instruments from the holder at the relevant price. The relevant price will be the principal amount outstanding of the eligible instruments as at the due date, adjusted to include any accrued but unpaid interest but reduced to take into account any losses which may have been incurred on the portfolio of mortgage loans backing the eligible instruments prior to the due date and which are allocable to the eligible instruments.

9. The obligations of the Guarantor under the Liquidity Guarantee will be conditional upon the holder of the eligible instruments transferring ownership of the eligible instruments to HM Treasury against payment under the Liquidity Guarantee.

Application of Guarantees

10. An eligible instrument can have the benefit of a Credit Guarantee or a Liquidity Guarantee, but not both.

Period during which Guarantees will be issued

11. The Government will issue Guarantees (of both types) in respect of eligible instruments issued during a 6-month period from the commencement of the 2009 Scheme, subject to any extension at the discretion of HM Treasury.

Term of applicable Guarantees

12. The Guarantee in respect of an eligible instrument will have a maximum term of either up to 3 years or up to 5 years. Up to one third of the Guarantees (based on the total amount of guaranteed eligible instruments) may have up to the 5 year term.

Instruments eligible to be guaranteed

13. A Guarantee may be applied to instruments issued under stand-alone transactions or to instruments issued under established or newly established master trusts, in each case approved by HM Treasury at its sole discretion.

14. The eligible instruments must be single currency denominated in Sterling, Euro, US Dollars, Yen, Australian Dollars, Canadian Dollars or Swiss Francs or such other currency as may be approved by HM Treasury.

15. The eligible instruments must be able to be rated "AAA" (or the equivalent) at the time of issue by at least two international credit rating agencies, on the basis that the eligible instruments do not carry the applicable Guarantee.

16. The mortgage loans which are sold into the mortgage pool backing the eligible instruments must be of a high quality. Any mortgage loans which are sold into the relevant mortgage pool after the date the participating institution joins the 2009 Scheme must meet additional specified criteria, including the following:

- each mortgage loan must be made not earlier than 1 January 2008,
- each mortgage loan must be secured by a valid first ranking mortgage, or (in Scotland) standard security, over a residential property located in the United Kingdom,
- the loan-to-value ("LTV") ratio of each mortgage loan at its origination must not have exceeded 90% of the lower of the purchase price or the then most recent valuation of the mortgaged property,
- immediately following the date of each sale referred to above, the weighted average LTV ratio of all the mortgage loans in the pool which backs the eligible instruments must not, by reference to the mortgage loans at their respective origination, exceed 75% of the lower of the respective purchase prices of the mortgaged properties or the most recent valuations as at the time of origination, and
- the borrower of each mortgage loan must not have an adverse credit history.

Information disclosure

17. Issuers will be required to procure the issue of periodic reports, at least quarterly, to investors and the Guarantor in line with international best practice (such as the "RMBS

Issuer Principles for Transparency and Disclosure, Version 1" published by the European Securitisation Forum in February 2009).

Government's recourse

Credit Guarantee

18. The Guarantor will be entitled to be indemnified for any amount which it pays out under the Credit Guarantee from both the participating institution and from the Issuer of the eligible instruments.

19. In the first case, the indemnity will be contained in an unsecured counter-indemnity from the eligible institution. In the second case, the indemnity will be contained in a counter-indemnity granted by the Issuer under which the Guarantor will have a claim against the Issuer equivalent to the claim had by the holder of the eligible instrument, secured over the relevant mortgage pool.

Liquidity Guarantee

20. The Guarantor will be entitled to be indemnified for any amount which it pays out under the Liquidity Guarantee from the participating institution under an unsecured counter-indemnity. Following any payment being made by the Guarantor under the Liquidity Guarantee, the Guarantor will, as holder of the relevant eligible instruments, have all the rights of such a holder. The Guarantor will be entitled to hold or sell the relevant eligible instruments at its discretion at any time. The Guarantor will also be entitled to require the participating institution to purchase the eligible instruments.

Fee

21. The fee payable to HM Treasury on guaranteed issues will be based on a per annum rate of 25 basis points plus 100% of the participating institution's median 5-year Credit Default Swap (CDS) spread during the period from 2 July 2007 to 1 July 2008, as determined by HM Treasury. HM Treasury may apply its own estimate of an

appropriate CDS spread if public data is unavailable. The fee will be applied to the principal amount outstanding from time to time of the eligible instruments and will be payable on the interest payment dates of the eligible instruments until the earlier of the expiry of the applicable term of the Guarantee and the date the eligible instruments have been redeemed. In addition, HM Treasury may charge an incremental fee to any applicable Guarantee being applied to non-sterling denominated eligible instruments.

Application process

22. Eligible institutions will be required to use the pro forma application forms available in due course on the UK Debt Management Office (DMO) website.

Published information

23. HM Treasury's Deed of Guarantee and the Rules of the 2009 Scheme are available at www.dmo.gov.uk.

24. A list of eligible instruments guaranteed under the 2009 Scheme, identified by their International Securities Identification Number (ISIN), may also be made available at www.dmo.gov.uk.

25. Media enquiries should be addressed to HM Treasury Press Office on 020 7270 5238 and the DMO on 0845 357 6501.

UK Debt Management Office

HM Treasury

22 April 2009