



Moody's Investors Service

**Rating Action: Moody's upgrades the rating of \$94MM of CLO notes and confirms the ratings of \$216MM of CLO notes issued by Churchill Financial Cayman Ltd.**

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Global Credit Research - 08 Oct 2009

New York, October 08, 2009 -- Moody's Investors Service announced today that it has upgraded the rating of the following notes issued by Churchill Financial Cayman Ltd.:

U.S.\$93,750,000 Class C Floating Rate Third Priority Senior Secured Deferrable Interest Term Notes due 2019, Upgraded to Baa1; previously on March 23, 2009 Downgraded to Baa3 and Placed Under Review for Possible Downgrade.

In addition, Moody's has confirmed the ratings of the following notes:

U.S.\$87,500,000 Class B Floating Rate Second Priority Senior Secured Term Notes due 2019 (current balance of \$86,500,000), Confirmed at Aa2; previously on March 4, 2009 Aa2 Placed Under Review for Possible Downgrade;

U.S.\$65,000,000 Class D-1 Floating Rate Fourth Priority Senior Secured Deferrable Interest Term Notes due 2019 (current balance of \$64,000,000), Confirmed at Ba3; previously on March 23, 2009 Downgraded to Ba3 and Placed Under Review for Possible Downgrade;

U.S.\$10,000,000 Class D-2 Fixed Rate Fourth Priority Senior Secured Deferrable Interest Term Notes due 2019, Confirmed at Ba3; previously on March 23, 2009 Downgraded to Ba3 and Placed Under Review for Possible Downgrade;

U.S.\$62,500,000 Class E Floating Rate Fifth Priority Senior Secured Deferrable Interest Term Notes due 2019 (current balance of \$55,733,981), Confirmed at B3; previously on March 23, 2009 Downgraded to B3 and Placed Under Review for Possible Downgrade.

Moody's notes that the upgrade action on the Class C Notes and the rating confirmations on the Class B, Class D-1, Class D-2, and Class E Notes consider updated analysis incorporating certain rating stresses assumed by Moody's and credit deterioration (discussed below), but reflect Moody's conclusion that the impact of these factors on the ratings of the notes is not as negative as previously assessed during Stage I of the deal review in March. The current conclusions stem from comprehensive deal-level analysis completed during Stage II of the ongoing CLO surveillance review, which included an in-depth assessment of results from Moody's quantitative CLO rating model along with an examination of deal-specific qualitative factors. By way of comparison, during Stage I Moody's took rating actions that were largely the result of a parameter-based approach (see press release dated March 4, 2009, titled "Moody's puts all but senior-most CLO tranches on review for downgrade").

Moody's rating analysis applies certain revised assumptions with respect to default probability (including certain stresses pertaining to credit estimates) and the calculation of the Diversity Score. These revised assumptions are described in the publication "Moody's Approach to Rating Collateralized Loan Obligations," dated August 12, 2009. Moody's analysis also reflects the expectation that recoveries for second lien loans will be below their historical averages, consistent with Moody's research (see Moody's Special Comment titled "Strong Loan Issuance in Recent Years Signals Low Recovery Prospects for Loans and Bonds of Defaulted U.S. Corporate Issuers," dated June 2008). Other assumptions used in Moody's CLO monitoring are described in the publication "CLO Ratings Surveillance Brief - Second Quarter 2009," dated July 17, 2009. Due to the impact of all aforementioned stresses, key model inputs used by Moody's in its analysis, such as par, weighted average rating factor, diversity score, and weighted average recovery rate, may be different from the trustee's reported numbers.

Moody's also notes that there is moderate credit deterioration in the underlying portfolio. Such credit deterioration of the collateral pool is observed through an increase in the dollar amount of defaulted securities, an increase in the proportion of securities from issuers rated Caa1 and below, and failure of the Class E Overcollateralization Ratio test. Based on the latest trustee report, dated August 17, 2009, defaulted securities currently held in the portfolio total about \$68.8 million, accounting for roughly 6% of

the collateral balance, and securities rated Caa1 or lower make up approximately 13% of the underlying portfolio. The Class E Overcollateralization Ratio was reported at 107.0% versus a test level of 107.8%. Moody's also noted that the weighted average rating factor of the portfolio is 3501 based on the same report.

Churchill Financial Cayman Ltd., issued on July 10, 2007, is a collateralized loan obligation backed primarily by a portfolio of senior secured loans of middle market issuers.

The principal methodology used in rating and monitoring the transaction is described in the following publication, which is available on [www.moody.com](http://www.moody.com) in the Rating Methodologies sub-directory under the Research & Ratings tab:

Moody's Approach to Rating Collateralized Loan Obligations (August 12, 2009).

Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Rating Methodologies sub-directory on Moody's website. Moody's also publishes a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at [www.moody.com/SFQuickCheck](http://www.moody.com/SFQuickCheck).

In addition to the quantitative factors that are explicitly modeled, qualitative factors are part of rating committee considerations. These qualitative factors include the structural protections in each transaction, the recent deal performance in the current market environment, the legal environment, specific documentation features, the collateral manager's track record, and the potential for selection bias in the portfolio. All information available to rating committees, including macroeconomic forecasts, input from other Moody's analytical groups, market factors, and judgments regarding the nature and severity of credit stress on the transactions, may influence the final rating decision.

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