

Research Update:

Bear Stearns Cos. Inc. Outlook Revised To Negative; 'A+/A-1' Rating Affirmed

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Rationale

On Aug. 3, 2007, Standard & Poor's Ratings Services revised its outlook on Bear Stearns Cos. Inc. to negative from stable. At the same time, Standard & Poor's affirmed its 'A+/A-1' issuer credit rating on Bear Stearns as well as its ratings on various Bear Stearns affiliates (see list).

Notwithstanding the challenges it faces, Bear Stearns' liquidity is strong. Still, the negative outlook reflects our concerns about recent developments and their potential to hurt Bear Stearns' performance for an extended period. We believe Bear Stearns' reputation has suffered from the widely publicized problems of its managed hedge funds, leaving the company a potential target of litigation from investors who have suffered substantial losses.

Bear Stearns has material exposure to holdings of mortgages and MBS, the valuations of which remain under severe pressure. It also has exposure to debt it has taken up as a result of unsuccessful leveraged finance underwritings, and it has significant further underwriting commitments. Broadly, we believe these direct balance-sheet exposures are not proportionately larger than those of Bear Stearns' peers. Also, even with these exposures, we expect Bear Stearns to be profitable in the current quarter. However, Bear Stearns has a relatively high degree of reliance on the U.S. mortgage and leveraged finance sectors, and its revenues and profitability would be especially affected if there were an extended downturn in those markets.

The ratings continue to reflect Bear Stearns' strong competitive positions in such areas as MBS, CMBS, ABS, and CDO/CLO underwriting and market making; prime brokerage; and clearing services. The firm's relatively small capital base, high degree of operating risk, and concentrations in fixed-income products and in the U.S. market partially offset these strengths.

Bear Stearns' liquidity is strong, and we expect it to remain so. The company has reduced its reliance on CP from former levels. Holdings of cash and unencumbered securities, available secured and unsecured committed credit facilities, and other sources of funding should be more than sufficient to meet near-term funding requirements, even if--contrary to our expectations--there were to be a sustained period of disrupted capital markets access.

Outlook

The ratings could be lowered if large losses were to be incurred over the next few quarters or if earnings failed to stabilize at a satisfactory level beyond the next few quarters, which we expect will be--at best--difficult ones for the company. On the other hand, if Bear Stearns can overcome current challenges and effect a more rapid recovery than we currently anticipate, the

rating outlook could be revised back to stable.

Ratings List

Ratings Affirmed

Bear Stearns Cos. Inc. (The)

Senior Unsecured	
Foreign Currency	A+
Local Currency	A+/A-1
Preferred Stock	
Local Currency	BBB+
Short-Term Debt	
Local Currency	A-1
Certificate Of Deposit	
Local Currency	A+
Commercial Paper	
Local Currency	A-1

Bear Stearns Capital Trust I

Bear Stearns Capital Trust II

Preferred Stock	
Local Currency	BBB+

Bear Stearns Finance LLC

Preferred Stock	
Foreign Currency	BBB+

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Bear Stearns Cos. Inc. (The)		
Counterparty Credit Rating	A+/Negative/A-1	A+/Stable/A-1
Bear Stearns Securities Corp.		
Counterparty Credit Rating	AA-/Negative/A-1+	AA-/Stable/A-1+

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select Ratings in the left navigation bar, then Credit Ratings Search.

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