Countrywide Financial Corporation

Liquidity is the Achilles heel

Rating Change **SELL**

Equity | United States | Mortgage Finance
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Merrill Lynch

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Downgrade to Sell; Liquidity issues accelerating

Downgrade Countrywide Financial (CFC; C-3-8; $24.46) from Buy to Sell, based on concerns that liquidity in the mortgage sector could further erode the value of CFC's franchise. We fear that the acceleration of margin calls and forced asset sales in the capital markets could lead to more problems for CFC to finance its mortgage operations. Should a liquidity event occur, for which the likelihood is increasing, CFC shares would probably witness further selling pressure. Near-term downside risk in share to $18-$20, or roughly 0.75x GAAP BV of $25.

Our view has changed, materially

The capital markets willingness to finance mortgage collateral has weakened, as financial difficulties weigh on the markets appetite for risk. Recent problems in the asset-backed commercial paper and non-GSE repurchase markets raise the risk that lenders reduce exposure to the mortgage sector, possibly causing CFC to de-lever into a weak market. We had known this possibility existed, however, it appears funding markets are deteriorating quickly. 1-Month LIBOR is pricing in higher risk in bank credit at 5.58%, financing for MBS is very harder to come by and there are talks of more difficulties at financial institutions.

De-levering and restructuring are expensive

We think CFC's BV would be at risk if it is forced to sell at discount prices with $23.00 as a near-term target. The markets are fluid and confidence is draining, making it more likely that CFC may have to work through a period of uncertainty regarding the availability and cost of credit. We think CFC has alternatives to finance operations, but the quick change in market temperament toward short-term borrowing will likely weigh on the shares further. EPS downside is to roughly $2, which the market would value at $12-$20. Frankly, significant pressure could introduce a potential take-out, though prices are likely at or below current levels.

Estimates (Dec)

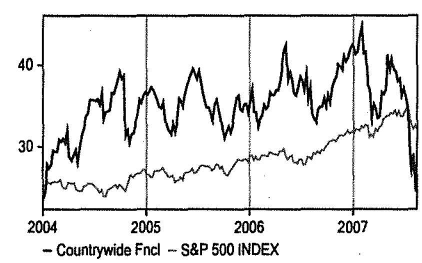
(US$)	2005A	2006A	2007E	2008E	2009E
EPS	4.11	4.30	2.52	3.05	3.85
GAAP EPS	4.11	4.30	2.52	3.05	3.85
EPS Change (YoY)	13.2%	4.6%	-41.4%	21.0%	26.2%
Consensus EPS (First Call: 10-aug-2007)			3.00	3.61	4.93
Dividend Rate	0.58	0.60	0.60	0.60	0.60

Valuation (Dec)

	2005A	2006A	2007E	2008E	2009E
P/E	6.0x	5.7x	9.7x	8.0x	6.4x
GAAP P/E	6.0x	5.7x	9.7x	8.0x	6.4x
Dividend Yield	2.4%	2.5%	2.5%	2.5%	2.5%

Stock Data

Price	US$24.46
Investment Opinion	C-1-7 to C-3-8
Volatility Risk	HIGH
52-Week Range	US$23.64-45.26
Mrkt Val / Shares Out (mn)	US$14,255 / 582.8
ML Symbol / Exchange	CFC / NYS
Bloomberg / Reuters	CFC US / CFC.N
ROE (2007E)	10.3%
Total Dbt to Cap (Jun-2007A)	92.8%
Est. 5-Yr EPS / DPS Growth	12.0% / 10.0%



Quarterly Earnings Estimates

	2006	2007
Q1	1.10A	0.72A
Q2	1.15A	0.81A
Q3	1.03A	0.40E
Q4	1.01A	0.58E

Refer to important disclosures on page 9 to 10. Analyst Certification on page 8.

iQprofile℠ Countrywide Financial Corporation

Income Statement Data (Dec)

(US$ Millions)	2005A	2006A	2007E	2008E	2009E
Net Interest Income	2,324	2,922	2,992	2,783	2,861
% change	14.9%	25.8%	2.4%	-7.0%	2.8%
Net Fee Income	4,781	5,535	6,707	7,626	8,153
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	12,397	14,697	14,027	15,737	16,973
Operating Expenses	(8,134)	(10,129)	(10,676)	(12,105)	(13,184)
% change	7.6%	24.5%	5.4%	13.4%	8.9%
Provisions Expense	(116)	(234)	(1,043)	(707)	(89)
% change	1,470.7%	102.1%	346.1%	-32.2%	-87.4%
Operating Pre-Tax Income	4,148	4,334	2,307	2,924	3,700
Operating Net Income to Comm S/Hold.	2,528	2,675	1,508	1,828	2,313
GAAP Net Income	2,528	2,675	1,508	1,828	2,313

Company Description

Countrywide Financial Corp.'s (CFC) primary business is mortgage banking, including the origination and purchase of residential mortgages via a multi-channel distribution network. Revenues are driven by mortgage origination and servicing, interest income on its portfolio, and fees from ancillary business.

Stock Data

Average Daily Volume	22,052,016
Brokers Covered (FirstCall)	0

Balance Sheet Data (Dec)

(US$ Millions)	2005A	2006A	2007E	2008E	2009E
Total Assets	175,085	199,946	262,416	294,851	284,413
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	36,819	31,273	66,090	91,090	92,140
% change	-1.4%	-15.1%	111.3%	37.8%	1.2%
Total Customer Deposits	39,489	55,579	79,644	80,544	66,442
% change	97.3%	40.7%	43.3%	1.1%	-17.5%
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	12,816	14,318	14,899	16,574	18,733

Key Metrics (Dec)

(US$ Millions)	2005A	2006A	2007E	2008E	2009E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	39.0%	38.3%	34.7%	37.5%	37.5%
Loan / Deposit Ratio	93.2%	56.3%	83.0%	113.1%	138.7%
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	1.7%	1.4%	0.7%	0.7%	0.8%
ROE	21.9%	19.7%	10.3%	11.6%	13.1%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	7.1%	6.2%	6.2%	5.6%	4.7%
Efficiency Ratio (Cost / Income Ratio)	65.6%	68.9%	76.1%	76.9%	77.7%

Quality of Earnings (Dec)

(US$ Millions)	2005A	2006A	2007E	2008E	2009E
Total Non-Interest Inc / Operating Inc	81.3%	80.1%	78.7%	82.3%	83.1%
NPLs plus Foreclosed Real Estate / Loans	0%	0%	0%	0%	0%
Loan Loss Reserves / NPLs	0%	0%	0%	0%	0%
Loan Loss Reserves / Total Loans	0%	0%	0%	0%	0%

It's a matter of market confidence and it is eroding

We have quickly re-assessed our position in CFC shares because the financial market situation appears to be getting worse at an accelerating pace, and we fear that market participants will start acting in self-interest as liquidity is quickly evaporating from the market. The Fed recently pumped $38B in funds into the market, stabilizing the Fed Funds rate near the targeted 5.25%, which we think helped take some of strain off of the market. However, LIBOR rates are persisting at meaningfully higher levels at 5.58%, or roughly 0.35% higher, suggesting the market perceives there to be higher bank credit risk. 1-Month LIBOR was 5.32% just last week and the news of liquidity issues roiled world markets sending Fed Funds and LIBOR higher. We had been relieved to see the Fed Funds rate reverse, but we are concerned that the market is sensing more risk, as we had hoped, too optimistically in hindsight, that the market would calm down on the injection of liquidity. It has not, in our view.

The recent disruptions in the asset-backed commercial paper market, as highlighted by the Coventree situation in Canada, is further eroding confidence in the markets that companies can effectively roll-over short-term funding facilities. Also, the high-profile funding issues for mortgage collateral (Loans and MBS) is leading the market to avoid most mortgage risk, almost categorically, with the exception of the agency MBS market, as the volatile market is leading to price discounts and lower advance rates. This forces finance companies, like CFC, to tie-up more equity and has led to defaults at other mortgage finance companies.

Given that most lenders' balance sheets are viewed as basically under-water, or that the liquidation value is below carrying-value, book value of equity is viewed more skeptically, leading the equity markets to apply healthy discounts to GAAP BV multiples. The troughs for broken financial institutions tend to be 0.75x BV. This may seem arbitrary, but the market does not have good visibility into the balance sheets, so it errs on the side of caution until it can be more precise. Applying this 0.75x multiple to CFC gets us to about $18-$19, roughly where we think CFC could go on 9x trough earnings of about $2.00 per share. This is 25% downside from the closing price of $24.50. We like this franchise but we think it will be under pressure, if this market continues to take liquidity out of the mortgage market. We continue to think the company can survive a period of secondary market instability, however, the steps that it would take to preserve shareholder value would be expensive, likely leading to further share price declines from here. That said, we think it is best to sell the stock and wait for the funding clouds to part, as there will likely be time to come back into CFC shares, once visibility into capital markets, credit and macro environment improves.

Liquidity the most pressing concern; Shift to GSE model

The mortgage market is witnessing a severe contraction in liquidity across most every asset class, including the high-quality AAA sector, increasing the financial pressure on mortgage companies, including CFC. Most of the issues appear to be affecting lower-rated bonds and loans, both sub-prime and Alt-A, with lenders stating that margin calls are eroding capital and the poor depth of the market is leading to low dollar prices on asset sales. Most participants say little is actually moving outside of the GSE space. Lenders are nervous, with lower advance rates and higher rates likely over the immediate future. There have been companies, mostly mortgage REITs that have been unable to meet margin calls and credit facilities are being terminated. The disruption in the Canadian asset-backed commercial paper market serves as the most recent example of the severe contraction that has occurred in the capital markets and that we are concerned could spread to the US market. (See related research comment "COF "disruption" indicates liquidity squeeze worsening" published 8/14/07 by our Canadian colleagues) We hesitate to mention the word contagion, but this market is feeling awfully similar to the fall of 1998. Frankly, the secondary mortgage market has evaporated even more quickly, which we think could leave a longer-trail of collateral damage.

Table 1: Adjusted BV; Liquidate ST funded assets

Assets:	Carrying Value Q2'07	Adjustments	Adjusted Value Q2'07	
Cash	1,154	-	1,154	
Loans & MBS AFS	34,090	(1,023)	33,425	3% Discount
Trading Securities	22,793	(228)	22,645	1% Discount
REPO Securities	26,385	(264)	26,214	1% Discount
Loans HFI	74,057	-	74,057	
Investment in Financial Inst.	26,601	-	26,601	
MSR	20,087	-	20,087	
Other Assets	11,654	-	11,654	
Total Assets	216,822	(1,514)	215,837	
Liabilities:				
Mkt. Funding Sources	128,001	-	128,001	
Deposits	60,293	-	60,293	
Other Liabilities	14,142	-	14,142	
Total Liabilities	202,436	-	202,436	
Shareholder Equity	14,386		13,401	
Book Value, per share	$25.05	-$1.71	$23.34	
Share Count	574.2			

Source: Merrill Lynch estimates

The market is concerned that CFC could have difficulty with its credit facilities, which are critical to it operating in the near-term. CFC currently has about $185B in available credit facilities, though the concern is that these facilities could be terminated or the terms changed meaningfully, thus impacting CFC's ability to operate normally. We cannot understate the importance of liquidity for a specialty finance company like CFC. If enough financial pressure is placed on CFC or if the market loses confidence in its ability to function properly then the model can break, leading to an effective insolvency. If liquidations occur in a weak market, then it is possible for CFC to go bankrupt. CFC had about $20B on asset-backed CP, most supported by bank commitments and 3rd party credit support, $6B in straight CP, and $24B of other short-term credit facilities at June 30th. Given the $30B in July production, of which maybe $10B is non-agency, CFC needs to finance somewhere between $50-$60B in collateral. Assuming only modest sale activity in the current market, we think CFC is approaching the $48B in highly-reliable liquidity that it has available, meaning that it is very sensitive to reduced market liquidity. The problem is that the secondary mortgage market has ground to a halt, leaving lenders nervous about financing mortgage credit. Money-market funds are showing signs of cracks and we think the capital markets are tense about exposure to risky names. This increases the odds, in our view, that CFC will have to take extreme steps to work through the budding liquidity crisis.

CFC appears stronger than many specialty finance companies, as the $186B in funding suggests about 1.6 quarters coverage for its mortgage operations that produce $115B per quarter on the Q2'07 pace. Should the secondary market remain congested, then we think CFC would reduce its exposure to many non-GSE products and we sense that this is happening throughout the industry already. We have seen Wells Fargo and Wachovia both back away from the Alt-A market, which we understand is very problematic. We have also heard anecdotal evidence that most product rate sheets are 10% of their previous size. CFC is about 70% GSE eligible, or about $80B per quarter, and loans with GSE-exits will probably be financed more readily than non-GSE eligible loans. Without a firm market to sell loans, warehouse facilities and asset-backed commercial paper conduits are at risk of being extended or terminated. CFC's bank will likely prove to be an important liquidity vehicle, should the secondary mortgage market remain dislocated, as it can post loan collateral to the FHLB for borrowing. CFC had $12B available at the FHLB at Q2'07 quarter-end and we think the bank will fund a higher percentage of loans, implying that additional FHLB borrowing cold occur over the near-term.

The capital markets activity could be most impacted by a closed-down REPO market, as most of CFC's short-term credit facilities are for financing securities inventory. Our REPO liquidation scenario in Table 1 illustrates the potential book value adjustments that could occur, if CFC had to liquidate positions to pay-down borrowings, with a BV reduction to $23.30 from $25. We have assumed modest haircuts to the carrying value, as we think most of the securities are fairly liquid, even in this market. If this scenario were to occur, we think CFC shares could fall to $21, or roughly 0.90x adjusted BV, as we think investors would be concerned that other credit-facilities could be in jeopardy. Earnings would fall by about $1.70 per share, not factored into our estimates, though the charge would be behind CFC, so investors would likely look through the EPS impact.

Longer-term dislocation could alter strategy; Bank life rope

Investors are concerned that the capital markets could reduce exposure to the mortgage sector for an extended period, possibly reducing CFC's ability to roll-over its medium-term notes leading to its recently issued converts being put back at par. Should the secondary markets remain largely closed to CFC, then it clearly would have longer-term earnings challenges and would potentially need to consider strategic options to finance its operations as most bank. This would lead to a more aggressive move to integrate its lending operations with its bank, in our opinion, thus tapping the FHLB advance system more fully and the federally-insured deposit system. This type of environment would obviously be a stressful scenario for most financial institutions, though we think CFC has the operations in place to better leverage its banking assets.

We have analyzed 1 such scenario that assumes CFC reduces its reliance on medium-term note (MTN) borrowing, convertible debt and other short-term borrowings (See Tables 2-4 below). The majority of the balance sheet activity, including loan growth is completed through CFC's bank segment. The bank finances the growth through deposit growth and FHLB borrowing, requiring roughly $47B in deposit and FHLB borrowing to finance consolidated asset growth of $26B, implying delivering at the other various segments. The MTNs would fall from $22B to about $14B in our hypothetical scenario and non-bank borrowing would be down about $14B on a consolidated basis. We have also assumed junk-type spreads are applied to CFC's remaining MTNs, so we have factored in a meaningful earnings drag. Importantly, our analysis suggests CFC could effectively adjust its funding strategy to work-through a longer-term capital markets disruption and generate positive earnings of about $2 per share at its trough. Any quarter could have mark-to-market noise complicate results in a period, but earnings would likely grow nicely as the deferred earnings recognition of a hold-strategy would accelerate earnings growth in 2009, possibly complemented by improving credit costs to provide 50% EPS lift YoY. Our scenario suggests over $3 in EPS for 2009. If this outcome occurred, which is more conservative than our previous example, investors would likely witness CFC shares valued at anywhere between 6x EPS of $2-$3, or $12-$18, implying 40% downside from the current stock price of approximately $24.50.

Table 2: Scenario Analysis - Reduce market funding

	Calendar	2007				Calendar	2008				Calendar	Calendar
	2006	Q1 A	Q2 A	Q3 E	Q4 E	2007	Q1 E	Q2 E	Q3 E	Q4 E	2008	2009
Earnings Model												
Gain on Sale	4,263	1,234	1,493	1,031	876	4,634	980	1,194	1,160	1,191	4,525	4,541
Net Interest Income	2,922	579	435	342	130	1,486	211	168	177	244	800	2,023
Servicing Fees	3,636	1,387	1,421	1,609	1,658	6,076	1,713	1,754	1,794	1,829	7,091	7,622
Change in value due to CF	(3,194)	(925)	(1,007)	(1,098)	(1,137)	(4,167)	(1,095)	(1,165)	(1,195)	(1,224)	(4,679)	(5,285)
Impairment	148	(251)	1,059	0	0	809	0	0	0	(15)	(15)	(10)
Servicing Hedge Gains	(614)	(114)	(1,373)	(144)	(149)	(1,780)	(152)	(156)	(159)	(163)	(630)	(679)
Net Loan Servicing Fees	1,301	98	100	367	372	938	466	433	440	427	1,767	1,648
Net Insurance Premiums Earned	1,171	334	352	350	350	1,387	300	340	340	310	1,290	1,370
Commissions & Other Revenue	575	160	167	165	170	662	170	170	170	170	680	695
Total Revenue	10,232	2,406	2,548	2,254	1,898	9,107	2,127	2,305	2,287	2,343	9,062	10,277
Total non-interest expense	7,083	1,705	1,884	1,908	1,726	7,223	1,720	1,822	1,743	1,764	7,049	7,228
Earnings before Income Taxes	4,334	701	665	346	173	1,884	407	484	544	579	2,014	3,049
Provision for Income Taxes	1,659	267	180	130	65	641	153	181	204	217	755	1,144
Net Income to Common	**2,675**	**434**	**485**	**216**	**108**	**1,243**	**254**	**302**	**340**	**362**	**1,258**	**1,906**
EPS Data:												
Diluted	**$4.30**	**$0.72**	**$0.81**	**$0.36**	**$0.18**	**$2.08**	**$0.43**	**$0.50**	**$0.57**	**$0.60**	**$2.10**	**$3.17**
Book Value / Share (F.D.)	**$24.50**	$25.10	$25.10	$25.10	$25.10	**$25.10**	$25.20	$25.50	$25.80	$26.10	**$26.10**	**$28.20**
ROAA	**1.4%**	0.9%	0.9%	0.4%	0.2%	**0.6%**	0.5%	0.6%	0.6%	0.7%	**0.6%**	**0.8%**
ROAE	**19.7%**	11.9%	13.3%	6.0%	3.0%	**8.6%**	6.9%	8.1%	8.9%	9.3%	**8.3%**	**11.5%**
Avg. Leverage	**13.8x**	14.0x	14.5x	14.9x	14.8x	**14.4x**	14.8x	14.5x	14.2x	14.1x	**14.5x**	**14.1x**

Source: ML estimates

Table 3: Countrywide Financial (CFC; C-3-8; $24.46)

	Calendar	2007				Calendar	2008				Calendar	Calendar
	2006	Q1 A	Q2 A	Q3 E	Q4 E	2007	Q1 E	Q2 E	Q3 E	Q4 E	2008	2009
Earnings Model												
Gain on Sale	4,263	1,234	1,493	990	1,001	4,718	1,052	1,241	1,219	1,142	4,655	5,253
Net Interest Income	2,922	579	435	443	492	1,949	506	517	526	526	2,076	2,772
Net Loan Servicing Fees	1,301	98	100	365	385	948	526	448	447	448	1,869	1,552
Net Insurance Premiums Earned	1,171	334	352	350	350	1,387	300	340	340	310	1,290	1,370
Commissions & Other Revenue	575	160	167	165	170	662	170	170	170	170	680	695
Gain on Sale of Subsidiary	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenue	10,232	2,406	2,548	2,313	2,397	9,664	2,555	2,715	2,703	2,596	10,569	11,642
Total non-interest expense	7,083	1,705	1,884	1,926	1,842	7,357	1,827	1,972	1,978	1,868	7,645	7,942
Earnings before Income Taxes	4,334	701	665	386	555	2,307	728	744	725	727	2,924	3,700
Provision for Income Taxes	1,659	267	180	145	208	800	273	279	272	273	1,097	1,388
Net Income to Common	**2,675**	**434**	**485**	**241**	**347**	**1,508**	**455**	**465**	**453**	**455**	**1,828**	**2,313**
EPS Data:												
Diluted	**$4.30**	**$0.72**	**$0.81**	**$0.40**	**$0.58**	**$2.52**	**$0.76**	**$0.78**	**$0.76**	**$0.76**	**$3.05**	**$3.85**
Consensus	**$4.30**	**$0.72**	**$0.81**	**$0.76**	**$0.75**	**$3.00**	**$0.78**	**$0.85**	**$0.89**	**$0.90**	**$3.61**	**$4.93**
Dividend	$0.60	$0.15	$0.15	$0.15	$0.15	$0.60	$0.15	$0.15	$0.15	$0.15	$0.60	$0.60
Book Value / Share (F.D.)	**$24.50**	$25.10	$25.10	$25.20	$25.60	**$25.60**	$26.10	$26.60	$27.10	$27.60	**$27.60**	**$30.50**
ROAA	**1.4%**	0.9%	0.9%	0.4%	0.5%	**0.7%**	0.7%	0.7%	0.6%	0.6%	**0.7%**	**0.8%**
ROAE	**19.7%**	11.9%	13.3%	6.7%	9.4%	**10.3%**	12.0%	12.0%	11.4%	11.1%	**11.6%**	**13.1%**
Avg. Leverage	**13.8x**	14.0x	14.5x	16.1x	17.4x	**15.8x**	17.9x	18.3x	18.3x	18.0x	**17.7x**	**16.4x**
Wtd. Shares Out. - Diluted	622.2	603.0	595.5	596.4	597.2	598.0	598.0	598.7	599.4	600.0	599.0	601.4

Source: Company financial releases & Merrill Lynch estimates

Analyst Certification

I, Kenneth Bruce, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

***iQmethod*[SM] Measures Definitions**

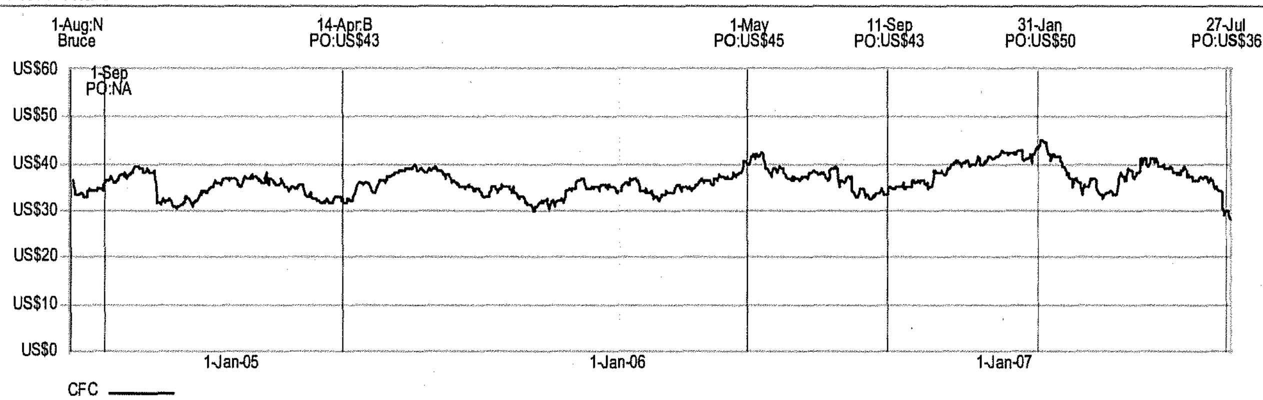
Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod[SM] is the set of Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

Important Disclosures

CFC Price Chart



B : Buy, N : Neutral, S : Sell, PO : Price objective, NA : No longer valid

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark Grey shading indicates the security is restricted with the opinion suspended. Light Grey shading indicates the security is under review with the opinion withdrawn. Chart current as of July 31, 2007 or such later date as indicated.

Investment Rating Distribution: Financial Services Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	95	39.42%	Buy	47	52.81%
Neutral	138	57.26%	Neutral	66	50.38%
Sell	8	3.32%	Sell	0	0.00%

Investment Rating Distribution: Global Group (as of 01 Jul 2007)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1675	47.16%	Buy	435	29.21%
Neutral	1633	45.97%	Neutral	438	29.67%
Sell	244	6.87%	Sell	47	21.66%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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