**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 delever 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)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>4.11</td>
<td>4.30</td>
<td>2.52</td>
<td>3.05</td>
<td>3.65</td>
</tr>
<tr>
<td>GAAP EPS</td>
<td>4.11</td>
<td>4.30</td>
<td>2.52</td>
<td>3.05</td>
<td>3.65</td>
</tr>
<tr>
<td>EPS Change (YoY)</td>
<td>13.2%</td>
<td>4.8%</td>
<td>-14.1%</td>
<td>21.0%</td>
<td>26.2%</td>
</tr>
<tr>
<td>Consensus EPS (First Call: 10-aug-2007)</td>
<td>3.00</td>
<td>3.81</td>
<td>4.93</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend Rate</td>
<td>0.58</td>
<td>0.60</td>
<td>0.60</td>
<td>0.60</td>
<td>0.60</td>
</tr>
</tbody>
</table>

**Valuation (Dec)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>P/E</td>
<td>6.0x</td>
<td>5.7x</td>
<td>9.7x</td>
<td>8.0x</td>
<td>6.4x</td>
</tr>
<tr>
<td>GAAP P/E</td>
<td>6.0x</td>
<td>5.7x</td>
<td>9.7x</td>
<td>8.0x</td>
<td>6.4x</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>2.4%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

**Quarterly Earnings Estimates**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>1.10A</td>
<td>0.72A</td>
</tr>
<tr>
<td>Q2</td>
<td>1.15A</td>
<td>0.81A</td>
</tr>
<tr>
<td>Q3</td>
<td>1.03A</td>
<td>0.40E</td>
</tr>
<tr>
<td>Q4</td>
<td>1.01A</td>
<td>0.58E</td>
</tr>
</tbody>
</table>

**Stock Data**

- Price: US$24.46
- Investment Opinion: C-1-7 to C-3-8
- Volatility Risk: HIGH
- S2-Week Range: US$23.64-45.26
- Mkt Yrl / Shares Out (nm): US$14,255 / 582.8
- ML Symbol / Exchange: CFC / NYS
- Bloomberg / Reuters: CFC US / CFC.N
- ROE (2007E): 10.3%
- Total Obl to Cap (Jun-2007A): 92.8%
- Est. 5-Yr EPS / DPS Growth: 12.0% / 10.0%

Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of Merrill Lynch in the US can receive independent, third-party research on companies covered in this report, at no cost to them, if such research is available. Customers can access this independent research at http://www.ml.com/independentresearch or can call 1-800-637-7455 to request a copy of this research.

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

### Income Statement Data (Dec)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Interest Income</strong></td>
<td>2,324</td>
<td>2,922</td>
<td>2,992</td>
<td>2,783</td>
<td>2,651</td>
</tr>
<tr>
<td>% change</td>
<td>14.9%</td>
<td>25.8%</td>
<td>2.4%</td>
<td>-7.0%</td>
<td>2.8%</td>
</tr>
<tr>
<td><strong>Net Fee Income</strong></td>
<td>4,781</td>
<td>5,535</td>
<td>6,707</td>
<td>7,626</td>
<td>8,153</td>
</tr>
<tr>
<td><strong>Securities Gains / (Losses)</strong></td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Total Operating Income</strong></td>
<td>12,397</td>
<td>14,697</td>
<td>14,027</td>
<td>15,737</td>
<td>16,973</td>
</tr>
<tr>
<td>% change</td>
<td>7.6%</td>
<td>24.5%</td>
<td>5.4%</td>
<td>13.4%</td>
<td>8.9%</td>
</tr>
<tr>
<td><strong>Provisions Expense</strong></td>
<td>(1,16)</td>
<td>(234)</td>
<td>(1,043)</td>
<td>(707)</td>
<td>(89)</td>
</tr>
<tr>
<td>% change</td>
<td>1,470.7%</td>
<td>102.1%</td>
<td>346.1%</td>
<td>-32.2%</td>
<td>-87.4%</td>
</tr>
<tr>
<td><strong>Operating Pre-Tax Income</strong></td>
<td>4,148</td>
<td>4,334</td>
<td>2,307</td>
<td>2,924</td>
<td>3,700</td>
</tr>
<tr>
<td>% change</td>
<td>-1.4%</td>
<td>-15.1%</td>
<td>111.3%</td>
<td>37.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>Tangible Equity</strong></td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Common Shareholders' Equity</strong></td>
<td>12,816</td>
<td>14,318</td>
<td>14,699</td>
<td>16,574</td>
<td>18,733</td>
</tr>
</tbody>
</table>

### Balance Sheet Data (Dec)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Assets</strong></td>
<td>175,085</td>
<td>199,946</td>
<td>262,416</td>
<td>294,851</td>
<td>284,413</td>
</tr>
<tr>
<td><strong>Average Interest Earning Assets</strong></td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Total Gross Customer Loans</strong></td>
<td>36,819</td>
<td>31,273</td>
<td>66,090</td>
<td>91,090</td>
<td>92,140</td>
</tr>
<tr>
<td>% change</td>
<td>-1.4%</td>
<td>-15.1%</td>
<td>111.3%</td>
<td>37.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>Total Customer Deposits</strong></td>
<td>39,489</td>
<td>55,579</td>
<td>79,644</td>
<td>80,544</td>
<td>66,442</td>
</tr>
<tr>
<td>% change</td>
<td>97.3%</td>
<td>40.7%</td>
<td>43.3%</td>
<td>1.1%</td>
<td>-17.5%</td>
</tr>
<tr>
<td><strong>Loan Loss Reserves</strong></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

### Key Metrics (Dec)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Effective Tax Rate</strong></td>
<td>39.0%</td>
<td>39.3%</td>
<td>34.7%</td>
<td>37.5%</td>
<td>37.5%</td>
</tr>
<tr>
<td><strong>Loan/Deposit Ratio</strong></td>
<td>56.3%</td>
<td>56.3%</td>
<td>93.0%</td>
<td>113.1%</td>
<td>138.7%</td>
</tr>
<tr>
<td><strong>Tangible Common Equity / Assets</strong></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>ROA</strong></td>
<td>1.7%</td>
<td>1.4%</td>
<td>0.7%</td>
<td>0.7%</td>
<td>0.8%</td>
</tr>
<tr>
<td><strong>ROE</strong></td>
<td>21.9%</td>
<td>19.7%</td>
<td>10.3%</td>
<td>11.6%</td>
<td>13.1%</td>
</tr>
<tr>
<td><strong>Dividend Payout Ratio</strong></td>
<td>7.1%</td>
<td>6.2%</td>
<td>6.2%</td>
<td>5.6%</td>
<td>4.7%</td>
</tr>
<tr>
<td><strong>Efficiency Ratio (Cost / Income Ratio)</strong></td>
<td>65.6%</td>
<td>68.9%</td>
<td>76.1%</td>
<td>76.8%</td>
<td>77.7%</td>
</tr>
</tbody>
</table>

### Quality of Earnings (Dec)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Non-Interest Inc / Operating Inc</strong></td>
<td>81.3%</td>
<td>80.1%</td>
<td>78.7%</td>
<td>82.3%</td>
<td>83.1%</td>
</tr>
<tr>
<td><strong>NPLs plus Foreclosed Real Estate / Loans</strong></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Loan Loss Reserves / NPLs</strong></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Loan Loss Reserves / Total Loans</strong></td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Assets:</th>
<th>Q2'07 Value</th>
<th>Adjustments</th>
<th>Adjusted Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>1,154</td>
<td>-</td>
<td>1,154</td>
</tr>
<tr>
<td>Loans &amp; MBS AFS</td>
<td>34,090</td>
<td>(1,023)</td>
<td>33,425</td>
</tr>
<tr>
<td>Trading Securities</td>
<td>22,793</td>
<td>(228)</td>
<td>22,665</td>
</tr>
<tr>
<td>Repo Securities</td>
<td>26,385</td>
<td>(254)</td>
<td>26,131</td>
</tr>
<tr>
<td>Loans HFI</td>
<td>74,057</td>
<td>-</td>
<td>74,057</td>
</tr>
<tr>
<td>Investment in Financial Inst.</td>
<td>26,601</td>
<td>-</td>
<td>26,601</td>
</tr>
<tr>
<td>MSR</td>
<td>20,087</td>
<td>-</td>
<td>20,087</td>
</tr>
<tr>
<td>Other Assets</td>
<td>11,654</td>
<td>-</td>
<td>11,654</td>
</tr>
<tr>
<td>Total Assets</td>
<td>216,822</td>
<td>(1,514)</td>
<td>215,307</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mkt. Funding Sources</td>
<td>128,001</td>
<td>-</td>
<td>128,001</td>
</tr>
<tr>
<td>Deposits</td>
<td>60,293</td>
<td>-</td>
<td>60,293</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>14,142</td>
<td>-</td>
<td>14,142</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>202,436</td>
<td>-</td>
<td>202,436</td>
</tr>
<tr>
<td>Shareholder Equity</td>
<td>14,386</td>
<td></td>
<td>13,401</td>
</tr>
<tr>
<td>Book Value, per share</td>
<td>$25.05</td>
<td>-$1.71</td>
<td>$23.34</td>
</tr>
<tr>
<td>Share Count</td>
<td>574.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 underestimate 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 insololvency. 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 already congested, then we think evidence that most product rate sheets are probably had $12B market, which we understand is very GSE products and we sense that this is happening throughout the industry conduits are at risk of being extended or terminated. CFC’s bank will 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 rollover 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

<table>
<thead>
<tr>
<th>Earnings Model</th>
<th>Calendar</th>
<th>2007</th>
<th>2008</th>
<th>Calendar</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain on Sale</td>
<td>4,283</td>
<td>1,234</td>
<td>1,493</td>
<td>1,031</td>
<td>876</td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>2,922</td>
<td>579</td>
<td>435</td>
<td>342</td>
<td>130</td>
</tr>
<tr>
<td>Servicing Fees</td>
<td>3,638</td>
<td>1,387</td>
<td>1,421</td>
<td>1,609</td>
<td>1,658</td>
</tr>
<tr>
<td>Change in value due to CF</td>
<td>(3,194)</td>
<td>(925)</td>
<td>(1,007)</td>
<td>(1,098)</td>
<td>(1,137)</td>
</tr>
<tr>
<td>Impairment</td>
<td>148</td>
<td>(251)</td>
<td>1,059</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net Loan Servicing Fees</td>
<td>1,301</td>
<td>98</td>
<td>100</td>
<td>367</td>
<td>372</td>
</tr>
<tr>
<td>Net Insurance Premiums Earned</td>
<td>1,171</td>
<td>334</td>
<td>352</td>
<td>350</td>
<td>350</td>
</tr>
<tr>
<td>Commissions &amp; Other Revenue</td>
<td>575</td>
<td>160</td>
<td>167</td>
<td>165</td>
<td>170</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>10,232</td>
<td>2,406</td>
<td>2,548</td>
<td>2,234</td>
<td>1,898</td>
</tr>
<tr>
<td>Total non-interest expense</td>
<td>7,083</td>
<td>1,705</td>
<td>1,884</td>
<td>1,908</td>
<td>1,726</td>
</tr>
<tr>
<td>Earnings before Income Taxes</td>
<td>4,334</td>
<td>701</td>
<td>665</td>
<td>346</td>
<td>173</td>
</tr>
<tr>
<td>Provision for Income Taxes</td>
<td>1,659</td>
<td>267</td>
<td>180</td>
<td>130</td>
<td>65</td>
</tr>
<tr>
<td>Net Income to Common</td>
<td>2,675</td>
<td>434</td>
<td>485</td>
<td>216</td>
<td>108</td>
</tr>
</tbody>
</table>

**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
  - $25.80
  - $26.10
  - $26.20

- **ROAA**
  - 1.4%
  - 0.9%
  - 0.9%
  - 0.4%
  - 0.2%
  - 0.6%
  - 0.5%
  - 0.6%
  - 0.6%
  - 0.6%

- **ROAE**
  - 19.7%
  - 11.9%
  - 13.3%
  - 6.0%
  - 3.0%
  - 8.6%
  - 6.9%
  - 8.1%
  - 8.9%
  - 9.3%

- **Avg. Leverage**
  - 13.8x
  - 14.0x
  - 14.5x

*Source: ML estimates*
Table 3: Countrywide Financial (CFC; C-3-8; $24.46)

<table>
<thead>
<tr>
<th></th>
<th>Calendar 2006</th>
<th>2007</th>
<th>Calendar 2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain on Sale</td>
<td>4,263</td>
<td>1,234</td>
<td>1,493</td>
<td>990</td>
</tr>
<tr>
<td>Net Interest Income</td>
<td>2,922</td>
<td>579</td>
<td>435</td>
<td>443</td>
</tr>
<tr>
<td>Net Loan Servicing Fees</td>
<td>1,301</td>
<td>98</td>
<td>100</td>
<td>365</td>
</tr>
<tr>
<td>Net Insurance Premiums Earned</td>
<td>1,171</td>
<td>334</td>
<td>352</td>
<td>350</td>
</tr>
<tr>
<td>Commissions &amp; Other Revenue</td>
<td>575</td>
<td>160</td>
<td>167</td>
<td>165</td>
</tr>
<tr>
<td>Gain on Sale of Subsidiary</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>10,232</td>
<td>2,408</td>
<td>2,548</td>
<td>2,313</td>
</tr>
<tr>
<td>Total non-interest expense</td>
<td>7,083</td>
<td>1,705</td>
<td>1,884</td>
<td>1,926</td>
</tr>
<tr>
<td>Earnings before Income Taxes</td>
<td>4,334</td>
<td>701</td>
<td>665</td>
<td>386</td>
</tr>
<tr>
<td>Provision for Income Taxes</td>
<td>1,659</td>
<td>267</td>
<td>180</td>
<td>145</td>
</tr>
<tr>
<td>Net Income to Common</td>
<td>2,675</td>
<td>434</td>
<td>485</td>
<td>241</td>
</tr>
</tbody>
</table>

Base EPS Data:

<table>
<thead>
<tr>
<th></th>
<th>Diluted</th>
<th>Consensus</th>
<th>Dividend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$4.30</td>
<td>$4.30</td>
<td>$0.60</td>
</tr>
<tr>
<td>Book Value / Share (F.D.)</td>
<td>$24.50</td>
<td>$25.10</td>
<td>$25.72</td>
</tr>
<tr>
<td>ROAA</td>
<td>1.4%</td>
<td>0.9%</td>
<td>0.8%</td>
</tr>
<tr>
<td>ROAE</td>
<td>19.7%</td>
<td>11.9%</td>
<td>13.5%</td>
</tr>
<tr>
<td>Avg. Leverage</td>
<td>13.8x</td>
<td>14.0x</td>
<td>14.5x</td>
</tr>
</tbody>
</table>

Wtd. Shares Out. - Diluted | 622.2 | 603.0 | 588.5 |

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 Measures Definitions**

<table>
<thead>
<tr>
<th>Business Performance</th>
<th>Numerator</th>
<th>Denominator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return On Capital Employed</td>
<td>NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill</td>
<td>Total Assets - Current Liabilities + ST Debt + Accumulated Goodwill Amortization</td>
</tr>
<tr>
<td>Return On Equity</td>
<td>Net Income</td>
<td>Shareholders' Equity</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>Operating Profit</td>
<td>Sales</td>
</tr>
<tr>
<td>Earnings Growth</td>
<td>Expected 5-Year CAGR From Latest Actual</td>
<td>N/A</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>Cash Flow From Operations - Total Capex</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quality of Earnings</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Realization Ratio</td>
<td>Cash Flow From Operations</td>
<td>Net Income</td>
</tr>
<tr>
<td>Asset Replacement Ratio</td>
<td>Capex</td>
<td>Depreciation</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>Tax Charge</td>
<td>Pre-Tax Income</td>
</tr>
<tr>
<td>Net Debt-To-Equity Ratio</td>
<td>Net Debt = Total Debt, Less Cash &amp; Equivalents</td>
<td>Total Equity</td>
</tr>
<tr>
<td>Interest Cover</td>
<td>EBIT</td>
<td>Interest Expense</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Valuation Toolkit</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Price / Earnings Ratio</td>
<td>Current Share Price</td>
<td>Diluted Earnings Per Share (Basis As Specified)</td>
</tr>
<tr>
<td>Price / Book Value</td>
<td>Current Share Price</td>
<td>Shareholders' Equity / Current Basic Shares</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>Annualised Declared Cash Dividend</td>
<td>Current Share Price</td>
</tr>
<tr>
<td>Free Cash Flow Yield</td>
<td>Cash Flow From Operations - Total Capex</td>
<td>Market Cap. = Current Share Price * Current Basic Shares</td>
</tr>
<tr>
<td>Enterprise Value / Sales</td>
<td>EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Sales</td>
<td></td>
</tr>
<tr>
<td>EV / EBITDA</td>
<td>Enterprise Value</td>
<td>Basic EBIT + Depreciation + Amortization</td>
</tr>
</tbody>
</table>

*iQmethod™ 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 forecasts as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by Merrill Lynch.

**Countrywide Financial Corporation**
Important Disclosures

CFC Price Chart

<table>
<thead>
<tr>
<th>Date</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Aug/03</td>
<td>US$43</td>
</tr>
<tr>
<td>14 Apr/B</td>
<td>US$43</td>
</tr>
<tr>
<td>1 May</td>
<td>US$45</td>
</tr>
<tr>
<td>1 Nov</td>
<td>US$43</td>
</tr>
<tr>
<td>31 Jan</td>
<td>US$50</td>
</tr>
<tr>
<td>27 Jul</td>
<td>US$36</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>Coverage Universe</th>
<th>Count</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>95</td>
<td>39.42%</td>
</tr>
<tr>
<td>Neutral</td>
<td>138</td>
<td>57.26%</td>
</tr>
<tr>
<td>Sell</td>
<td>8</td>
<td>3.32%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Coverage Universe</th>
<th>Count</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>1675</td>
<td>47.16%</td>
</tr>
<tr>
<td>Neutral</td>
<td>1833</td>
<td>45.97%</td>
</tr>
<tr>
<td>Sell</td>
<td>244</td>
<td>6.87%</td>
</tr>
</tbody>
</table>

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

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium, and C - High. INVESTMENT RATINGS, indicators of expected total return (price appreciation plus yield) within the 12-month period from the date of the initial rating, are: 1 - Buy (10% or more for Low and Medium Volatility Risk Securities - 20% or more for High Volatility Risk securities); 2 - Neutral (0-10% for Low and Medium Volatility Risk securities - 0-20% for High Volatility Risk securities); 3 - Sell (negative return); and 6 - No Rating. INCOME RATINGS, indicators of potential cash dividends, are: 7 - Same/higher (dividend considered to be secure); 8 - Same/lowe (dividend not considered to be secure); and 9 - Pays no cash dividend.

MLPF&S or one of its affiliates acts as a market maker for the securities recommended in the report: Countrywide Fnc.
MLPF&S or an affiliate was a manager of a public offering of securities of this company within the last 12 months: Countrywide Fnc.
The company is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates: Countrywide Fnc.
MLPF&S or an affiliate has received compensation from the company for non-investment banking services or products within the past 12 months: Countrywide Fnc.
The company is or was, within the last 12 months, a non-securities business client of MLPF&S and/or one or more of its affiliates: Countrywide Fnc.
MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this company within the next three months: Countrywide Fnc.
MLPF&S or one of its affiliates is willing to sell to, or buy from, clients the common equity of the company on a principal basis: Countrywide Fnc.
The company is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates: Countrywide Fnc.
The analyst(s) responsible for covering the securities in this report receive compensation based upon, among other factors, the overall profitability of Merrill Lynch, including profits derived from investment banking revenues.
Other Important Disclosures

UK readers: MLPF&S or an affiliate is a liquidity provider for the securities discussed in this report.

Information relating to Non-U.S. affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPF&S):
MLPF&S distributes research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France); Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt); Merrill Lynch International Bank Ltd; Frankfurt Branch; Merrill Lynch (South Africa); Merrill Lynch South Africa (Pty) Ltd; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLPF&S (UK); Merrill Lynch, Pierce, Fenner & Smith Limited; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co, Ltd; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Global (Taiwan) Limited; DSP Merrill Lynch (India); DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia); PT Merrill Lynch (Japan); Merrill Lynch Equities (Australia) Limited, (ABN 65 006 276 795), AFS License 235132, provides this report in Australia. No approval is required for publication or distribution of this report in Brazil.
Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.
Copyright, User Agreement and other general information related to this report:
Copyright 2007 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Merrill Lynch. Merrill Lynch research reports are distributed simultaneously to internal and client websites eligible to receive such research prior to any public dissemination by Merrill Lynch of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any disclosure information relating to Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. Merrill Lynch makes no representations or warranties whatsoever as to the data and information provided in any third party referenced website and shall have no liability or responsibility arising out of or in connection with any such referenced website.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report. In addition, investors in securities such as ADRs, whose values are influenced by the currency of the underlying security, effectively assume currency risk.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

Merrill Lynch Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

Fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current.
iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Merrill Lynch & Co., Inc. iQanaly6cs®, iQcustom®, iQdatabase® are registered service marks of Merrill Lynch & Co., Inc.