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From the Los Angeles Times

BofA is in talks to buy giant lender

A deal for struggling Countrywide could end fears of bankruptcy and offer a tonic for the mortgage industry's ills.

By E. Scott Reckard, Tom Petrino and Walter Hamilton
Los Angeles Times Staff Writers

January 11, 2008

In a deal that could buttress the ailing housing market, financial titan Bank of America Corp. was deep in negotiations Thursday to buy loss-battered Countrywide Financial Corp., the biggest U.S. mortgage lender.

A takeover by Bank of America would remove the threat that Calabasas-based Countrywide could fail and wreak more havoc in the mortgage market -- where loan defaults are soaring and federal policymakers have been struggling to limit the spillover in the economy.

A rescue of Countrywide would help calm the "crisis of confidence" that has slammed the financial system as the housing and mortgage markets have crumbled, said Brian Bethune of Global Insight, an economic forecasting firm in Lexington, Mass. "This will change perceptions."

Fear that the housing mess could drag the U.S. economy into recession has depressed the stock market in recent months and spurred the Federal Reserve to cut short-term interest rates three times. On Thursday, Fed Chairman Ben S. Bernanke said the central bank was ready to make further "substantive" moves to ease credit to help the economy.

In the case of Countrywide, policymakers had to be concerned about "a big domino going down," Bethune said.

The talks between Countrywide and Bank of America, confirmed by a source with knowledge of the discussions, ramped up this week as rumors spread on Wall Street that Countrywide might be forced to seek Bankruptcy Court protection.

The company said the rumors had no substance, but on Wednesday investors pushed the firm's once-highflying stock to an 11-year low. On Thursday, however, the shares jumped 51% amid expectations of a buyout.

For Countrywide, a takeover by a financially robust suitor "would be a gift from heaven," said banking industry analyst Richard Bove of Punk, Ziegel & Co. "They would get bailed out."

But the company's investors are certain to get only a fraction of the \$45 a share their stock was worth at its peak last year. And it isn't clear what would happen to Countrywide's extensive operations in the west San Fernando Valley and Ventura County, where it is one of the biggest employers.

For Charlotte, N.C.-based Bank of America, buying Countrywide would make the nation's largest retail bank the top mortgage lender as well. It also could protect a \$2-billion investment in Countrywide that the bank made in August, as the housing market's woes worsened and Countrywide began to have trouble raising money on Wall Street.

With Countrywide's stock market value less than \$5 billion now, BofA could gain control for "not a lot of money . . . and they've wanted to get into the mortgage business in a bigger way for years," said Robert Napoli, an analyst who follows mortgage lenders for brokerage Piper Jaffray & Co. in Chicago.

Bank of America declined to comment Thursday. Countrywide, responding to a New York Stock Exchange inquiry about the wild activity in its stock, also declined to comment.

Countrywide's shares soared \$2.63, or 51%, to \$7.75 on Thursday. Bank of America's shares rose 56 cents to \$39.30, and word of the takeover negotiations helped boost the stock market overall. The Dow Jones industrial average climbed 117.78 points, or 0.9%, to 12,853.09.

Countrywide, founded in 1969, became a leader in financing the housing sector boom in recent years as

a lender and loan servicer. The company now collects payments on more than 9 million loans nationwide worth \$1.5 trillion.

Its brassy, Bronx-born chief executive, 69-year-old Angelo R. Mozilo, came to personify the spectacular success many housing-related businesses enjoyed during the boom years. He was one of the highest-paid executives in America in 2005 and 2006, taking home \$160 million and \$120 million, respectively, mostly in stock option gains.

But Countrywide's fortunes began to turn last year. Loans that the company and other lenders had made to high-risk, "sub-prime" borrowers in the final years of the housing-market frenzy were defaulting at a fast pace as home sales slumped and prices fell.

Mozilo said at a recent economic conference that the mortgage industry made credit too easily available, giving borrowers a sense that "you couldn't lose . . . and when you can't lose, people do silly things."

Yet Countrywide itself has been criticized for loosening lending standards and helping to inflate the real estate bubble.

Failures of lending firms surged in the first half of 2007. Wall Street, which in the fat years had aggressively purchased loans for resale to investors via mortgage-backed securities, quickly cut off credit to the industry and demanded that lenders buy back scads of bad loans they had made.

By August, even giant Countrywide found itself strapped for funds. That attracted Bank of America, which agreed to a \$2-billion cash infusion to bolster the firm -- and effectively secured first rights to bid for the entire company.

In recent months, Countrywide increasingly has turned to individual savers for the cash it needs to make loans, offering sky-high yields on federally insured deposits.

This week, for example, the company's Countrywide Bank unit was offering an annualized yield of 5.45% on three-month, \$10,000 certificates, the highest in the U.S. and well above the national average yield of 3%, according to Informa Research Services.

All along, Mozilo has said Countrywide would take its lumps from the mortgage bust and emerge stronger.

Yet its stock has continued to slide since August as the company's loan delinquency rate soared, reaching 7.2% in December from 4.6% a year earlier.

Countrywide recorded a \$1.2-billion loss in the third quarter. To cut costs, it has slashed its workforce, which had topped 61,000 in July. The company said this week that its head count had fallen to 50,600 by year's end.

Some analysts said a takeover of Countrywide by Bank of America could be a long-term coup for the acquirer's 60-year-old CEO, Kenneth D. Lewis -- assuming that the housing market recovers in a few years.

"Countrywide has developed top-notch technology for mortgage processing and origination," said Bart Narter, an analyst at Celent, a Boston-based financial consulting firm. "When the mortgage business inevitably picks up, access to these resources will prove to be a valuable asset for Bank of America."

With \$1.6 trillion in assets, Bank of America boasts enormous earnings power thanks to its extensive retail and corporate banking operations. It earned \$3.7 billion in the third quarter despite setting aside \$2 billion for possible loan losses as the economy has weakened.

The bank's strength may help it hold on to Countrywide customers. Until Thursday, La Mirada retiree Millie Grisham said she was getting ready to pull her money out of Countrywide Bank, even if it meant paying an interest penalty for early withdrawal of her deposit.

Grisham feared Countrywide could go under, taking her principal with it, despite federal deposit insurance.

But talk of an acquisition by Bank of America reassured her. "Now that Bank of America might be taking over, I don't see why I wouldn't leave it there," Grisham said. "I would feel like my money was safe."

Still, Bank of America could be buying trouble in any deal for Countrywide, analysts warned.

Countrywide's lending practices are under investigation by California Atty. Gen. Jerry Brown and the Illinois attorney general's office, and the Securities and Exchange Commission is looking into potentially improper trading by insiders, most notably Mozilo, who sold more than \$140 million of stock before the price began tanking last year.

In addition, federal bankruptcy trustees are probing allegations that the company levied inappropriate charges on mortgage holders going through bankruptcy.

Fraud suits against Countrywide, and rising loan losses, could become huge liabilities in the next few years, some experts say.

"I'm stunned that Bank of America, which is a relatively conservative organization that meticulously runs its business, is willing to take on something as problematic as Countrywide," said Sean Mathis, managing director at Miller Mathis & Co., a New York investment bank. "They must feel they're getting everything at a discount that's sufficient to cover up the negative things."

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