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BofA reportedly in talks to buy Countrywide

Federal Reserve probably would OK deal, analysts say

Alan Zibel, Associated Press
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A buyout of hobbled mortgage lender Countrywide Financial would likely be approved by regulators, analysts say, because otherwise the company could file for bankruptcy, injecting further uncertainty into the home-loan market.

Bank of America Corp. is in talks to acquire Countrywide, the Wall Street Journal and the New York Times reported Thursday online, citing unidentified people familiar with the deal. The transaction would put the country's largest mortgage lender, which has experienced a jump in home-loan defaults and has seen its share price plummet, in the hands of the largest U.S. bank by market capitalization.

A Bank of America buyout is "the one and only hope that (Countrywide) has" to avoid bankruptcy, according to Sean Egan, managing director of independent ratings firm Egan-Jones Ratings Co. Egan-Jones warned this week that Countrywide could falter unless it receives an infusion of $4 billion within two weeks.

"I cannot imagine that the regulators want Countrywide to go under," said Bert Ely, a banking industry consultant in Alexandria, Va. "I think they're actually quite nervous about that."

A combination of Bank of America and Countrywide would require approval from the Federal Reserve, and possibly other agencies. Banking regulators declined to comment on the reports.

Federal law bars banks from making acquisitions that would increase a bank's market share to 10 percent of U.S. deposits, and Bank of America is nearing that point at 9.88 percent. However, experts disagreed about whether deposits held by Countrywide's federally regulated thrift, Countrywide Bank, would count toward that limit.

In addition, banking industry experts say Bank of America could easily lower the amount of money held in deposits by lowering interest rates and losing deposits to competitors.

Federal bank regulators "are not looking to clean up messes like the largest mortgage originator in the country going under," said Bart Nater, a senior analyst with consulting firm Celent in San Francisco.

Regulators are likely to be far more concerned with whether Countrywide fails - and the economic ramifications of such a large collapse - than with consolidation in the mortgage industry, Nater said.

For the first nine months of 2007, Countrywide was the largest U.S. mortgage lender, while Bank of America ranked fifth, according to trade publication Inside Mortgage Finance. Its publisher, Guy Cecala, called the potential deal "by far the most palatable way to resolve Countrywide's problems."

A failure at Countrywide, Cecala said, would have severe ripple effects, including forcing the industry and regulators to figure out who would take on the responsibility of collecting payments for millions of U.S. home loans.

It wasn't clear how quickly a deal might be struck for Countrywide, which has been roiled this week by rumors that bankruptcy was imminent. The Journal reported that negotiations between the two companies could fall apart.

Bank of America, which took on a 16 percent stake in Countrywide over the summer, told the Associated Press it does not comment on market speculation. Countrywide did not immediately return calls or e-mails seeking comment.

Countrywide shares climbed $2.63, or 51.4 percent, to close at $7.75 Thursday, while Bank of America shares rose 56 cents, or 1.5 percent, to $39.30.

The New York Stock Exchange said Thursday that it asked Countrywide to issue a public statement indicating whether there are any corporate developments that can explain the unusual trading activity. The exchange said Countrywide declined to comment.

Countrywide's stock has plummeted in recent days to record lows amid intensifying anxiety among investors over a continuing rise in defaults and foreclosures afflicting the Calabasas (Los Angeles County) lender and others in the mortgage industry.

In August, the mortgage lender drew on an $11.5 billion line of credit to steady itself.

Bank of America aided Countrywide by buying $2 billion in the form of nonvoting, convertible preferred stock yielding 7.25 percent annually. The shares can be converted into common shares of Countrywide at $18 per share, with certain restrictions.

If Bank of America should convert the shares, it would hold between 16 and 17 percent of Countrywide shares.

Last month, when asked whether he saw any opportunities to make yet another deal to expand his financial services empire, Bank of America chief executive Ken Lewis casually answered, "Nothing that comes to mind." When asked specifically about Countrywide, Lewis said he would have "to eat about seven years of my words" if he ever made a deal in the mortgage industry.

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