Bank of America Buys Countrywide

npr.org/templates/story/story.php

Business

January 11, 20081:00 PM ET

Heard on Day to Day

Listen

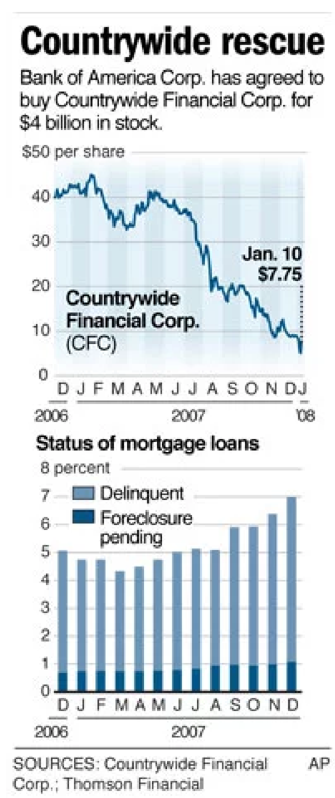
- **Download**
- **Transcript**

Bank of America is buying Countrywide, the nation's largest mortgage lender. Madeleine Brand talks to *Wall Street Journal* reporter James Hagerty about the deal and what it means for the mortgage market and the economy.

Bank of America to Buy Countrywide

January 11, 20088:41 AM ET

Bank of America Corp. has agreed to buy Countrywide Financial for $4 billion in stock, company officials announced Friday.



The deal will make the Charlotte-based bank the nation's biggest mortgage lender and loan servicer.

"Countrywide presents a rare opportunity for Bank of America to add what we believe is the best domestic mortgage platform at an attractive price and to affirm our position as the nation's premier lender to consumers," Bank of America Chief Executive Ken Lewis said.

The buyout puts Lewis, an aggressive dealmaker, in the position of a market savior. By buying Countrywide, he's keeping the industry and regulators from the messy task of figuring out who would take on the responsibility of collecting payments for the millions of U.S. home loans serviced by Countrywide.

"There's still plenty of risk involved," said Bart Narter, senior analyst at Celent, a financial research and consulting firm in Boston. "He's brave to do it. But I think that it's very likely down the road to be profitable, maybe not immediately, but long-term."

Boards Back Deal

Shareholders of Countrywide, based in Calabasas, Calif., will receive 0.1822 of a share of Bank of America stock in exchange for each share of Countrywide. The deal is expected to close in the third quarter and to be neutral to Bank of America earnings per share in 2008 and lift earnings per share in 2009, excluding buyout and restructuring costs.

Bank of America expects $670 million in after-tax cost savings in the transaction, or 11 percent of the expense base of the two companies' mortgage operations.

The agreement has been approved by both companies' boards and is subject to regulatory and Countrywide's shareholders approval.

Shares in Countrywide hit record lows in recent days on persistent rumors that a bankruptcy was imminent, a condition brought on by the widespread spike in mortgage defaults and foreclosures, especially in subprime loans — those made to borrowers with weak credit.

Countrywide shares plunged more than 18 percent, or $1.42, to $6.33 in premarket trading after soaring $2.63, or 51.4 percent, to close at $7.75 Thursday on reports of a possible deal. Bank of America shares fell 2 percent, or 80 cents, to $38.50.

Along with a $2 billion investment from Bank of America, Countrywide was forced to draw on an $11.5 billion line of credit to steady itself in August. It also tightened its credit guidelines and stopped selling some types of adjustable-rate loans. But analysts said it wasn't enough, with one noting this week that Countrywide needed an infusion of $4 billion in capital within the next two weeks to save itself.

Lewis' bank holds $1.5 trillion in assets and is the nation's largest bank by market capitalization.

"Their balance sheet can take a shock much better than Countrywide," said CreditSights senior analyst David Hendler. "When you take the shocks at Countrywide, they have a big, busting consequence that's negative."

Growth Through Acquisition

While Lewis downplayed the prospect of a major deal last month, it fits with an established pattern of building Bank of America through acquisition. In the past few years, Lewis has expanded the bank's retail operation with multibillion purchases of FleetBoston Financial Corp., bolted on a credit card business by adding MBNA Corp., and grabbed a wealth-management business in U.S. Trust Co.

The result of all the deal-making is a widely diversified financial services company that does business with nearly one out of every two American households.

In the past year, Bank of America has boosted its market share of prime mortgages, or those offered to borrowers with a solid credit history, and was the top retail mortgage originator in the U.S. during the first nine months of 2007.

"We are aware of the issues within the housing and mortgage industries," Lewis said. "The transaction reflects those challenges. Mortgages will continue to be an important relationship product, and we now will have an opportunity to better serve our customers and to enhance future profitability."

In Countrywide, Lewis gets the "best, total mortgage-banking company in the U.S. by far," Hendler said. Countrywide's sophisticated back office is a valuable asset that makes Bank of America a much bigger competitor with Wells Fargo & Co., Washington Mutual Inc. and others, he said. In 2007, Countrywide had $408 billion in mortgage originations and a servicing portfolio of about $1.5 trillion with 9 million loans.

"The technology platform, the people who run it, the hedging, the facilities, the mortgage-servicing rights, the origination platform, you know, they are all state-of-the-art," Hendler said.

Fed Approve Needed

While there are some regulator hurdles to close the deal, they are hardly insurmountable. The buyout would require approval from the Federal Reserve, and possibly other agencies, but analysts believe regulators are more concerned about a Countrywide collapse than industry consolidation.

A Countrywide failure would be a huge blow to government-sponsored mortgage finance companies Fannie Mae and Freddie Mac, which are major buyers of Countrywide's loans.

Federal law also bars banks from acquisitions that would increase market share above 10 percent of U.S. deposits, a limit that Bank of America is nearing. Experts disagree about whether deposits held by Countrywide's federally regulated thrift would count toward that limit, and Hendler said Bank of America could also get a waiver from regulators.

In addition, banking industry experts say Bank of America could easily lower the total amount of money held in deposits by decreasing interest rates and shedding deposits.

From NPR reports and The Associated Press

Just the right amount of economics, sent weekly.