

Proposed Purchase of Countrywide Financial Considered a Positive Sign for Markets

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The proposed \$4 billion purchase of Countrywide Financial by Bank of America should be considered a near-term positive for the financial markets. Given the recent turmoil, the last thing the markets needed was for the top residential lender in the U.S. to lose its ability to underwrite residential mortgages. While there are certainly concerns about substantial underwriting losses in Countrywide's core mortgage business, the more pressing concern for investors has been whether Countrywide would have the necessary liquidity to fund its business plan past the next several months. The proposed purchase by Bank of America should allay those concerns as its liquidity profile is substantially stronger than that of Countrywide. More importantly, it should instill confidence in the markets that one of the largest financial institutions in the U.S. believes that the residential mortgage business is still a viable long-term one.

Going forward we expect volatility surrounding Countrywide, Bank of America and other mortgage-related firms to remain elevated until the deal closes sometime in the third quarter. We also expect a fair amount of headline risk related to the housing market to continue, in the form of weak starts, rising inventories, delinquencies and foreclosures. However, we expect the housing market to return to normal at some point and the stronger players like Bank of America to be well positioned to take advantage of their strength.