COUNTRYWIDE FIN'L: Denies Rumors of Possible Bankruptcy Filing

Troubled Company Reporter , Nov 21, 2007 (Source: TCR)

Countrywide Financial Corp. said bankruptcy filing is unlikely given its $35.4 billion of "highly reliable liquidity," Bloomberg News reports.

"The rumors are absolutely false," Rick Simon, a spokesman for Countrywide, told Bloomberg.

According to Bloomberg, investors in credit-default swaps have began demanding upfront payments to take on risks that Countrywide might not pay its debts in the next five years.

The move pushed Countrywide stock to a seven-year low Tuesday on concern that the home lender is suffering a renewed cash shortage and might seek bankruptcy protection, Bloomberg relates.

Funding Modification

As reported in the Troubled Company Reporter on Nov. 13, 2007, Countrywide modified its funding structure by reducing its reliance on the public debt and non-agency secondary mortgage markets after credit rating agencies downgraded the company's debt ratings due to current market conditions and constrained liquidity, the company's Nov. 9, 2007 regulatory filing with the Securities and Exchange Commission disclosed.

Specifically, Countrywide:

* accelerated the integration of its mortgage banking activities into its bank subsidiary which has more stable funding and more access to highly reliable sources of funds which are less dependent on the capital markets during periods of market stress;

* significantly changed its underwriting standards, focusing the bulk of its current loan production on loans that are available for direct sale to or securitization into programs sponsored by the government-sponsored agencies (Fannie Mae, Freddie Mac and Ginnie Mae);

* procured other sources of financing, including:

  -- drawing the full $11.5 billion amount of its committed revolving credit facilities established to provide liquidity in the event of a disruption in the commercial paper market;

  -- making a private issuance of $2.0 billion of 7.25% convertible cumulative preferred stock;

  -- negotiating $7.5 billion of committed repurchase facilities, which included renewals of $2.5 billion of existing uncommitted repurchase facilities;

-- negotiating an increase of $5.5 billion of an uncommitted but highly reliable repurchase facilities with a government-sponsored enterprise; and

-- implementing an aggressive campaign to attract and retain bank deposits, including significant expansion of its network of financial centers.

David Sambol, Countrywide's president and chief operating officer and director, said that to retain access to the public debt markets, it is critical for the company to maintain investment-grade credit ratings.

Among other things, Mr. Sambol said, maintenance of the company's current investment-grade ratings requires that the company has high levels of liquidity, including access to alternative sources of funding such as deposits and committed lines of credit provided by highly rated banks. The company must also maintain adequate capital that exceeds current rating agency requirements.

Mr. Sambol noted that while Countrywide retains its investment grade ratings, all three rating agencies have placed the company's ratings on some form of "negative outlook."

He warned that should the company's credit ratings drop below "investment grade," its access to the public corporate debt markets could be severely limited.

"The cutoff for investment grade is generally considered a long-term rating of BBB- (or Baa3 Moody's Investors Service), which is equal to our lowest current rating. Furthermore, we expect that renegotiation or replacement of our existing financing arrangements beyond their current maturity dates will involve more restrictive terms and higher relative rates than those presently in place," Mr. Sambol explained.

According to Mr. Sambol, any reduction of Countrywide's credit ratings below investment grade could, among others:

a) subject the company's roughly $5.5 billion custodial deposits to placement with another bank;

b) negatively affect the company's ability to retain its commercial deposits; and

c) cause difficulty to the company's broker-dealer in conducting trading operations.

Mr. Sambol pointed out that the company has responded to the risks by procuring additional sources of liquidity, including $9.2 billion of cash and cash equivalents as of Sept. 30, 2007.

About Countrywide Financial

Based in Calabasas, California, Countrywide Financial Corporation (NYSE: CFC) -- http://www.countrywide.com/ -- is a diversified financial services provider. Through its family of companies, Countrywide originates, purchases, securitizes, sells, and services residential and commercial loans; provides loan closing services such as credit reports, appraisals and flood determinations; offers banking services which include depository and home loan products; conducts fixed income securities underwriting and trading activities; provides property, life and casualty insurance; and manages a captive mortgage reinsurance company.