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Bank of America May Get U.S. Aid for Merrill Lynch (Update1)

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By David Milkenberg



Jan. 15 (Bloomberg) -- **Bank of America Corp.**, the biggest U.S. bank by assets, may get more aid from the government to help absorb losses tied to this month's acquisition of Merrill Lynch & Co., three people familiar with the matter said.

Details are likely to be disclosed on Jan. 20, the people said. That's when Bank of America may post its first quarterly loss in 17 years as it digests the purchases of Merrill Lynch and Countrywide Financial Corp. The **combined company** has already received \$25 billion from the U.S.

Bank of America, based in Charlotte, North Carolina, told regulators in December the takeover might be abandoned because of Merrill's worse-than-expected **results**, said the people, who declined to be identified because the talks are private. The government insisted the transaction proceed because its collapse would create new turmoil in the financial system, they said.

"Bank of America has all kinds of problems with its acquisitions," said **Gary Townsend**, president of Hill-Townsend Capital LLC in Chevy Chase, Maryland. "They've been so acquisitive, they find themselves with very little in tangible equity."

Bank of America's shares lost 66 percent last year and have declined another 30 percent since Chief Executive Officer **Kenneth Lewis** told employees on Jan. 6 that 2008 performance may miss company expectations. They **traded** as low as \$9.50 yesterday after-hours in New York, the first time they fell below \$10 since 1992, and sold for \$9.62 at 8:30 a.m. New York time today.

Overreached?

The cost of protecting against a default by the bank rose to an almost four-month high today. Credit-default swaps jumped 30 basis points to 210 basis points, according to broker Phoenix Partners Group. The contracts, used to hedge against losses or to speculate on the company's creditworthiness, typically rise as investor confidence deteriorates.

Lewis overreached by rescuing two money-losing companies in six months, including New York-based Merrill Lynch and Calabasas, California-based Countrywide, say analysts including Townsend and **Paul Miller** of Friedman Billings Ramsey Inc. Since becoming CEO in 2001, Lewis has spent \$129 billion on acquisitions, including regional lenders FleetBoston Financial Corp. and LaSalle Bank, credit-card issuer MBNA and investment manager U.S. Trust Co.

Bank of America on Sept. 15 agreed to buy Merrill Lynch, the world's largest securities firm, after a weekend of negotiations between Lewis and Merrill CEO **John Thain**. The \$19.4 billion transaction came as **Lehman Brothers Holdings Inc.** sank into bankruptcy, crippled by the frozen credit markets.

Focus on Merrill

"Bank of America took some action to save the system," David Hendler, an analyst at CreditSights Inc., said yesterday in a telephone interview. "Long-term they are going to be a winner because they are going to get more government support and we are all going to pay for it."

Discussions about U.S. aid started in mid-December and the bank completed the purchase Jan. 1, based on assurances of U.S. help, according to the people. The new aid package is designed to ensure the Merrill Lynch deal gets done, not to save Bank of America from collapse, one person said.

"The bank must have decided that these Merrill issues would keep pounding on their earnings and on their dividend and on their stock price into 2010 or 2011, so they turned to the government," Hendler said.

The Treasury may decide to absorb some losses on Merrill's assets and cap the bank's liability, with terms still being discussed, the people said.

Scott Silvestri, a spokesman for Bank of America, and Brookly McLaughlin, a Treasury spokeswoman, declined to comment.

Writedowns Coming

Merrill may have lost 50 cents a share in the fourth quarter, Credit Suisse analyst Susan Roth Katzke estimated last month, citing declines in real estate, leveraged loans and private equity.

In 2009, Bank of America is likely to write down about \$6.7 billion of Merrill Lynch's \$36 billion in loans and securities backed mainly by commercial real estate, Citigroup Inc. analyst Keith Horowitz wrote in a Jan. 11 report. Revenue from investment banking and wealth management will decline this year by at least 20 percent, he estimated.

Making the Merrill acquisition pay off will prove difficult because the brokerage's two key businesses, its investment bank and 16,850 financial advisers, promise to be less profitable in coming years, said Julian Mann, a vice president of First Pacific Advisors LLC in Los Angeles. "There's going to be more traditional banking and less of the whiz-bang stuff," he said.

Staying Power

The Merrill purchase followed Bank of America's July acquisition of Countrywide, the largest U.S. home lender. That transaction is probably causing losses at Bank of America because of the declining value of U.S. home prices, Townsend said. Losses from Countrywide's loans to delinquent borrowers may top \$29 billion through 2011, Horowitz wrote in his report.

Bank of America has sufficient sources of capital and more than 10 percent of U.S. bank deposits, giving it staying power, said Hendler, who has an "overweight" rating on the company. Lewis is cutting as many as 35,000 jobs to help achieve \$7 billion in annual merger-related cost savings and he raised \$2.8 billion by selling some shares in China Construction Bank.

A bank employee since 1969 and the third CEO to lead the company since 1973, Lewis retains his board's confidence as he tries to integrate Merrill and Countrywide, says Larry Carroll, president of Carroll Financial Associates, a Charlotte investment firm that manages \$1.3 billion.

"Of the big three U.S. banks, Bank of America has the best chance of surviving because their trading risk is so much smaller" than Citigroup or JPMorgan Chase & Co., said Christopher Whalen, co-founder of Institutional Risk Analytics, a Torrance, California financial-services research firm.

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