

Thornburg Mortgage To Resume Lending

BY LINGLING WEI

Thornburg Mortgage Inc., the home-mortgage finance company that narrowly escaped seeking bankruptcy protection, expects to resume making loans "within weeks, if not days," Chief Executive Larry Goldstone said Tuesday.

The Santa Fe, N.M., company, which has focused on making big loans to wealthy people, had to suspend funding new mortgages recently after a sharp drop in the value of its mortgage securities triggered margin calls from its lenders and left it short of cash. In recent weeks, the situation got worse because the company wasn't able to meet \$610 million in margin calls.

Thornburg announced late Monday that it had raised \$1.35 billion through selling bonds, warrants to purchase its common shares and interests in certain mortgage assets.

"The company has adequate cash flow and adequate liquidity, and will be able to begin lending again within weeks, if not days," Mr. Goldstone said in an interview. Thornburg shares rose 24 cents, or 20%, to \$1.45 at 4 p.m. in New York Stock Exchange composite trading.

But the price of its turnaround was high: Buyers of the bonds will get 18% interest initially and warrants to buy Thornburg shares for a penny a share.

Thornburg is a relatively tiny lender based on loan-origination volumes. The company

❖ **The Good News:** After weeks of struggling at the brink of bankruptcy court, Thornburg Mortgage raised \$1.35 billion in new capital.

❖ **The Bad News:** Existing shareholders will see their interests diluted by the deal.

❖ **What's Next:** Thornburg expects to resume its home-mortgage lending business.

As of Dec. 31, only 0.44% of the loans in Thornburg's \$24.5 billion portfolio were more than 60 days past due or foreclosed properties, significantly less than the industry average.

Wall Street also was concerned because the other, bigger part of Thornburg's business is investing in mortgage assets. Its failure could have led to a fire sale of those assets, further depressing the market for mortgages.

As of the end of last year, Thornburg had a \$35 billion portfolio of adjustable-rate mortgages and mostly highly rated mortgage securities.

Thornburg plans to use the proceeds from the \$1.35 billion offering to satisfy a capital-raising requirement set by its lenders, who gave the company an extension through this past Monday to raise \$948 million or risk losing funding.

Analysts believe Thornburg will be able to service its debt partly because it recently suspended dividend payments. Bose George, an analyst at Keefe, Bruyette & Woods Inc., estimated that the company would have had to pay roughly \$100 million in preferred dividends alone this year.

Thornburg said it had received \$1.15 billion of the proceeds and that the other \$200 million is being held in escrow until the completion of a tender offer for preferred stock.

The capital-raising plan will significantly dilute the interests of existing shareholders. After the completion of various transactions, holders of the new bonds and preferred shareholders will own about 95% of the company.

"The company survived," said Mr. George, "but the common shareholders are left with very little."



Larry Goldstone

Boost for Bonds

Treasury investors, like stock investors, breathe a sigh of relief for a day.
Credit Markets C11

originated \$5.3 billion of adjustable-rate mortgages last year, down from \$5.6 billion in 2006.

Still, its fate has been closely watched because it caters to borrowers with good credit—not the subprime, or credit-challenged, borrowers who led to the dissolution of hundreds of mortgage lenders and brokers over the past year.