



MEMORANDUM

Date: March 12, 2008

To: Executive Committee

From: Tom Marano
Paul Friedman
Wayne Buchan

Re: **Thornburg Mortgage Forbearance**

cc: Michael Alix
Ken Kopelman

Purpose: Thornburg Mortgage, Inc. (ticker: TMA) is a residential mortgage Real Estate Investment Trust that originates and holds in portfolio prime, jumbo mortgages and mortgage-backed securities. Price declines in the company's portfolio of financed mortgages securities have resulted in unmet margin calls. In connection with a \$1 billion + capital raise, TMA has asked its five largest lenders ("the Lenders"), including Bear Stearns, for a one year lending commitment, forbearance from margin calls in exchange for meeting existing margin calls and a substantial pool of pledged collateral and 50 million penny warrants convertible into about 5% of diluted TMA shares.

Bear's Current Position:

\$1.32bn advanced vs. \$1.41bn market value of collateral (93% blended advance rate). After giving effect to the payment of \$68 million of Repo margin calls, the advance rate would be 89%. However, in a forced liquidation, estimated losses may be as high as \$100-200 million.

\$282mm notional in Interest Rate Swaps (Thornburg has agreed to terminate at market)

1 Mortgage Swap – margin call of \$20 million

Proposed Structure: Upon forbearance by its top five lenders, Thornburg will go to market to raise at least \$1bn. FBR, Thornburg's financial advisor, has indicated that sufficient interest exists to subscribe this offering plus a 15% green shoe. Thornburg will use the proceeds as follows:

- \$500 million to meet margin calls as of March 5th for both Repo & Swap positions. This would include both senior and subordinate securities, auction swaps, with haircuts standardized across lenders going forward.
- \$350 million to establish a segregated Liquidity Pool, pledged to the Lenders.

- Remainder used for continuing operations.
- Thornburg will also pledge its Mortgage Servicing Rights (value estimated at \$100-150mm) to the Lenders.
- 50 million penny warrants will be issued to the Lenders on (Bear's portion will be 8.5 million). Currently TMA is trading at 3.35/share (3/12/08). The warrants will be convertible at any time.
- Going Forward, 100% of principal payments and 20% of interest payments will be used to amortize Lenders' Repo balances, resulting in approximately 3% amortization per quarter. If certain targets are not met, 30% of interest payments will be directed toward this purpose. It is estimated that Bear Stearns overcollateralization will grow to 20%, assuming no change in the market value of securities.

Attachments:

Appendix A –Balance Sheets of TMA

Appendix B – Outstanding Repo Balances by Lender

Appendix C – Bear's Outstanding Repo Balances

Appendix D – Sources & Uses

Appendix E – Description of Warrants to be Issued

Appendix A

THORNBURG MORTGAGE, INC.
Balance Sheet as of February 29, 2008

Balance Sheet	(\$MM)
	Current
	2/29/2008
<u>ASSETS:</u>	
Total Real Estate Assets:	30,883
Repo Funded	9,960
Securitized	20,923
Cash	10
Investment Securities	1,011
Other	362
TOTAL ASSETS:	32,268
<u>LIABILITIES:</u>	
Reverse Repo Agreements:	7,613
Asset Backed CP:	300
Securitized Mortgage Debt	22,074
Senior/Sub Debt:	545
Other	229
TOTAL LIABILITIES:	30,761
<u>SHAREHOLDERS' EQUITY:</u>	
Common Stock	2
Preferred Stock	1,002
Paid In Capital	2,527
Mark to Market	(1,271)
Earnings	(752)
Dividends	0
TOTAL EQUITY:	1,508
TOTAL LIAB & EQUITY:	32,268

Appendix B

Thornburg Margin Calls Outstanding & Allocation							(\$MM)
Dealer	Estimated Loan Amount		Margin Call Allocation		Status	Claim	Claim Status
	As of 3/1/08	As of 3/12/08	Repo	Swaps			
RBS	1,722	1,626	(18)	(48)	Active		
CS	2,044	893	(59)	(80)	Active		
UBS	837	655	(13)	0	Active		
Bear	1,343	1,317	(68)	(20)	Active		
Citi	2,240	1,971	(74)	0	Active		
IXIS	183	0			Default	0	Known
Morgan	49	0			Default	(2)	Estimated
JP Morgan	320	0			Default	(18)	Known
Goldman	570	0			Default	(13)	Known
ING	709	0			Default	-	Known
Merrill	876	0			Inactive/No Default	(20)	Estimated
ABN	0	0			Inactive/No Default	-	
Total	10,893	6,462	(232)	(148)		(53)	

Appendix C

Bear's Repo Positions with Thornburg				(\$MM)
Rating	Loan Amount	Market Value	Advance Rate	
Agencies	70.0	84.0	83%	
AAA	526.0	452.0	116%	
AA+	13.0	14.0	93%	
AA	367.0	397.0	92%	
AA-	5.0	6.0	83%	
A+	6.0	7.0	86%	
A	161.0	186.0	87%	
A-	5.0	6.0	83%	
BBB+	4.0	6.0	67%	
BBB	74.0	105.0	70%	
BBB-	2.0	3.0	67%	
BB+	2.0	3.0	67%	
BB	26.0	48.0	54%	
BB-	0.0	0.1	0%	
B	12.0	26.0	46%	
B-	0.3	0.3	100%	
CCC+	0.0	0.1	0%	
CCC	0.3	1.0	30%	
NR	5.0	12.0	42%	
NOT_IN_BB	0.0	1.5	0%	
IO	45	58	78%	
Grand Total	1,324	1,416	93%	

Appendix D

Thornburg Capital Raise Sources & Uses (\$MM)

Sources:

Capital Raise:	1,000
Greenshoe @ 15%:	150
Total	1,150

Uses:

Margin Call Payments to Lenders	500
Liquidity Pool (pledged to Lenders)	350
Operations	250
Fees	50
Total	1,150

Appendix E



- ⌘ **Type of Security:** Convertible senior subordinated notes
- ⌘ **Amount:** \$1.0 Billion plus 15% over-allotment grant
- ⌘ **Conditions to Close:** at least 90% of repo borrowings termed to 364 days and collateral face amount at least \$9.0 billion
- ⌘ **Coupon:** 12%, quarterly, payable in arrears
- ⌘ **Convert Price:** TBD but will be based off of common stock price
- ⌘ **Detachable Warrants:** Investors receive penny warrants equal to 5.0% of the then outstanding fully diluted shares
- ⌘ **Ranking:** subordinated in right of payment to existing and future senior unsecured debt and senior to subordinated debt
- ⌘ **Maturity:** 7 years
- ⌘ **Conversion Period:** any time at option of note holder

2



- ⌘ **Warrant Grant:** 50 million warrants
- ⌘ **Exercise Price:** \$0.01
- ⌘ **Convertible to:** Thornburg Mortgage common stock
- ⌘ **Exercise Date:** Immediately
- ⌘ **Exercise Right Period:** Lenders have option up to 5 years
- ⌘ **Grant Split:** Based on direct proportion of exposure to financing agreements with counterparties

4