From: Friedman, Paul
Sent: Sunday, March 09, 2008 12:18 PM
To: Friedman, Paul; Buchan, Wayne (Exchange); Marano, Tom - Fixed Income; Mayer, Jeff - Fixed Income (Exchange); Overlander, Craig (Exchange); Alix, Michael (Exchange); Kopelman, Ken - Communication of Counsel (Exchange); Blood, Dan (Exchange); Molinaro, Sam (Exchange); Nierenberg, Michael
Cc: Chasin, Matthew (Exchange); Greene, Timothy (Exchange)
Subject: RE: Thornburg

Do we want to have a conference call today? 4:00?

-----Original Message-----
From: Friedman, Paul
Sent: Saturday, March 08, 2008 09:20 PM Eastern Standard Time
To: Buchan, Wayne (Exchange); Marano, Tom - Fixed Income; Mayer, Jeff - Fixed Income (Exchange); Overlander, Craig (Exchange); Alix, Michael (Exchange); Kopelman, Ken - Communication of Counsel (Exchange); Blood, Dan (Exchange); Molinaro, Sam (Exchange); Nierenberg, Michael

Cc: Chasin, Matthew (Exchange); Greene, Timothy (Exchange)
Subject: Thornburg

Wayne, Dan, Ken and I met with Thornburg and its 5 other lenders for most of today. There's still a fair amount of give and take between what the lending group is proposing and what the company has agreed to but let me try to summarize where we are (for math purposes, assume that since we are 17% of the repo outstanding we would get 17% of and cash or benefits):

* As before, the company plans to raise at least $1 billion in an equity deal through FBR. It remains conditioned on our agreeing to a 364 day standstill and any agreement we made would be cross-conditioned on the equity raise;

* The agreement covers all securities including subs.
* Everyone would get their margin call met as of Wednesday March 5th (including on derivative trades). In our case, that's about $120mm and the total for the group is between $500mm and 600mm (there was confusion on this).

* The group has asked for an additional $350mm of the capital raise to be pledged to the lenders in a segregated account, effectively adding that to the amount available to meet deficiencies. The company and FBR are working tonight to see if that's possible of if it would be a deal-breaker for the potential equity investors. If agreed to, our pro-rata share would be about $60mm. I'll spare you the discussion of why it would be in a seg account and not actually given to the lenders.

* The group has also asked that the mortgage servicing rights (worth about $100-150mm by Mike Nierenberg's rough guess) be pledged to the lenders. My guess is they'll agree to this. Mike, they don't believe they can sell this to us since they need to show the equity investors that they have some sort of ongoing company.

* 100% of any principal payments and 20% of interest payments would go to amortize the repos. Their estimates show that that would reduce the loan balances by about 3% per quarter (they use 10 CPR which compares to their current rate of

12 CPR). If certain amortization targets aren't met by this, this arrangement steps up to having 30% of interest go towards amortization. We haven't tested their assumptions but they don't sound crazy.

* The company has offered the group 10mm warrants struck at $.01 (the stock is currently $1.25/share). We countered with 100mm warrants (otherwise known as a $125mm fee at current prices). My guess is we'll land in the middle somewhere.

* The derivative transactions would be resolved separately. They're probably not material in the scheme of things.

* There were lots more conversations regarding the maximum amount of loans they can originate before securitizing, management comp and such that I'll spare you.

So here's the math: we currently have $1,325mm loaned against securities that were marked Friday at $1,415mm. That's a 93 ½% advance. About $500mm is AAA's, $400mm AA and the rest is lower rated. If we get another $100mm or so of margin it takes us to 86 ½ and if you count the $60mm of segregated cash (if we get it) we're at 82. I've attached the spreadsheet for both March 5th and 6th for anyone who want to try and calculate this by asset type.

I'm sure I've forgotten stuff but this is the essence of it.

Thornburg and their lawyers agreed to turn the document around by tomorrow mid-morning and there will be a creditors' call after, probably in the late afternoon. My sense is the group is likely to come to a landing that they want to do this, although Citi is a big wildcard here. At $2 billion they are the biggest lender but they are also the most squirrelly. We need to think how we want to proceed.

Finally, kudos to Wayne. In a room of 30 people from 6 firms with competing interests he got everyone on the same page and essentially drove them to a common understanding. It was fascinating to watch.