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Thornburg Mortgage

March 18, 2005

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OFFICE OF THE SECRETARY

Jonathon G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: File Number 4-497

Dear Mr. Katz:

We appreciate the opportunity to submit comments regarding the implementation of Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX 404") and Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements ("the standard") issued by the Public Company Accounting Oversight Board ("PCAOB").

We are an accelerated filer that has completed the first year of SOX 404 implementation. Our independent registered public accounting firm's opinion, dated February 28, 2005, disclosed no material weaknesses in internal controls.

We recognize the overall intent of SOX 404 to address the series of financial reporting failures in the last several years, beginning with the Enron debacle of 2001 and continuing today with ongoing investigations at Fannie Mae. We agree with the necessity of good internal controls over financial reporting. To a large degree, this is often a matter of not only having internal controls over the accuracy of financial numbers, but also documentation of management decisions.

We believe that in practice SOX 404 and the PCAOB have not achieved their objectives, at least in a cost efficient and sensible manner. Conversely, we believe that for the vast majority of public companies operating with ethical and experienced management, effective internal controls and "clean" regulatory records, the outcome has primarily been business distraction and incremental cost with little incremental benefit.

The relative lack of market reaction to public companies disclosing significant deficiencies and material internal control weaknesses appears to be another reason to reflect on the ensuing effectiveness of the regulations.

<u>Corporate Governance</u>

The publicized financial reporting failures in recent years have been due to lax external audits, weak corporate governance practices, management manipulation and failure to

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comprehend and apply complex accounting standards; not weaknesses in process-level "control activities" or detailed documentation which has been the focus of SOX 404 and the standard. We believe most of the objectives of SOX 404 would be met with the requirement and review of strong corporate governance practices, including board independence and accountability, good ethics policies and human resource practices. These are very important components for providing reliable financial reporting, but these represented a minor portion of the time and costs we incurred implementing SOX 404. These changes, combined with stronger regulations over auditors' financial statement audit practices, would likely lead to an effective reduction of future public company financial reporting failures.

Materiality and Emphasis on Detailed Process Documentation and Testing

We think the most difficult aspect of SOX 404 implementation was the apparent elimination of the materiality concept. Although materiality is addressed in the standard and is a component of the final analysis of deficiencies, in practice the requirements of the standard result in documentation and testing of controls that do not have a realistic potential of creating a material misstatement to financial statements. At least 80% of the internal resource time and direct cost incurred implementing SOX 404 was spent on documenting processes and controls over routine business transactions and financial statement accounts.

There were voluminous additions to our policies and procedures, required by the rule and the standard, which did not improve financial reporting or reduce the likelihood of a material misstatement in our financial statements. Our audit seemed to favor form over substance. For example, throughout the company there is a significant increase in requirements for personnel involved in an activity or review process to sign or initial and date documents. These additions do little to assure that an important process or review actually occurred properly. In most cases we do not believe the increased documentation requirements will eliminate or even reduce occasional errors that are bound to occur in carrying out our business. The flexibility to focus on fewer, important substantive processes would be a much more effective and efficient use of resources to meet SOX 404 objectives.

Our auditors applied the full and literal CobiT framework to our information technology ("IT") internal controls. This approach was excessive and resulted in unnecessary utilization of internal resources and higher external costs. Regulatory bodies need to provide more realistic IT guidelines which allow for increased flexibility and judgment based on the size and complexity of the IT function. We spent significant internal resources reviewing controls and evaluating deficiencies, drawn from the CobiT framework, which we did not believe improved internal controls over financial reporting. For example, even though we had installed current versions of virus protection software on our systems, a deficiency was noted and evaluated because we had not documented this procedure.

In general, we found there was little latitude for professional judgment in determining the extent and nature of work on the design and effectiveness of internal controls.

Evaluation of Deficiencies

Significant internal resources and outside costs were incurred in evaluating deficiencies that we strongly believe were not significant or material and could have been concluded upon in a more effective and expeditious manner. To evaluate our deficiencies, we used "A Framework for Evaluating Control Exceptions and Deficiencies" Version 3, dated December 20, 2004, which requires the use of chart templates in evaluating deficiencies. There should be allowance for judgment and qualitative factors in determining how to evaluate deficiencies.

Distraction of Business, Human Resource Cost and Direct Implementation Costs

Our organization has required the use of significant internal resources, estimated at 1,000 man hours, and more than $525 thousand in direct costs to implement SOX 404. These costs are not expected to decline in year two and beyond and, unfortunately, result in little or no benefit to our shareholders.

The time required of our Audit Committee, Chief Financial Officer, Chief Information Officer, Internal Audit function, Controller and other key managers deflected time and attention from important substantive reviews and company projects, including new IT implementation efforts and the introduction of products and services which could have enhanced our shareholder value.

Lastly, we believe the strict requirements of SOX 404 and the standard, resulting in shifting roles, challenge public companies to retain and recruit talented management within the financial and other areas of their organizations.

Suggested Improvements

Almost daily there are news stories published in the Wall Street Journal disclosing unethical conduct, restatements arising from errors in applying accounting principles or fraudulent accounting from earnings and other pressures. We agree there needs to be continued efforts to reduce the likelihood of these events. We believe the overall objective of SOX 404 would be more effectively and efficiently achieved if the focus was moved toward strong corporate governance and areas of higher risk, as determined by management and auditor judgment. These areas could include controls over producing financial statements, the proper review of accounting policies and application of GAAP, reviews and presentation of complex and complicated transactions, related party transactions and compensation plans, all of which we believe have been enhanced as a result of our SOX implementation . Simultaneously allowing for a more common sense approach, utilizing management and auditor professional judgment, to evaluate specific manual and IT control activities over processes and financial statement accounts would significantly reduce the financial and resource burden to many public companies.

Flexibility in the processes should be allowed if a company has demonstrated it has strong corporate governance practices, experienced management, no history of audit adjustments and has not been subject to regulatory investigations related to its financial reporting processes.

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions you may have. Please do not hesitate to contact us regarding this letter.

Sincerely,

Garrett Thornburg
Chairman of the Board and Chief Executive Officer

Larry Goldstone
President and Chief
Operating Officer