Accredited dodged bankruptcy bullet

Troubled S.D. subprime lender got loan, buyer in nick of time

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San Diego's Accredited Home Lenders revealed this week that it considered filing for bankruptcy in March, but staved off reorganization by landing a high-interest loan and ultimately finding a buyer for the company.

The troubled subprime mortgage lender revealed it had hired bankruptcy advisers in lengthy regulatory filings that lay out the company's case for shareholders to accept a tender offer from an affiliate of private equity firm Lone Star.

According to the filing, six companies made bids to acquire Accredited, which narrowed the field to two finalists – Lone Star and "Bidder X." Lone Star offered $14.10 a share in early June, which was slightly below the competing bid.

When Accredited told Lone Star it planned to enter exclusive negotiations with the rival bidder, Lone Star upped its bid to $15.10 a share, or roughly $400 million.

Yesterday, Accredited's shares closed at $13.83, down 57 cents and about 9.5 percent below Lone Star's tender offer. The gap suggests that some investors doubt the deal will happen at the current price.

There may be more behind Accredited's discounted share price than concerns about the deal, said Jerry Bruni of J.V. Bruni and Co., an investment management firm based in Colorado Springs that owns Accredited shares.

Accredited has not filed its annual report or first-quarter financial statements, leaving investors in the dark about its financial condition leading up to the deal. This week's filings did not include much additional financial information.

Bruni said the lack of financials, rising mortgage interest rates, and continued negative news swirling around the subprime industry and the housing market in general are probably behind the gap between Accredited's current share price and the Lone Star offer.

"Given the turmoil in subprime, it doesn't shock me," Bruni said of Accredited's stock price. "If this was more of a garden-variety takeover, it would."

A highflier during the housing boom, Accredited stock traded above $60 in May 2006. That was before a surge in deadbeat loans sparked a meltdown for subprime lenders, which specialize in making loans to borrowers with tainted credit.

More than 50 of Accredited's competitors have sold, gone out of business or filed for bankruptcy this year – most notably New Century Financial of Irvine, the nation's second-largest subprime originator.

Accredited expects tough times well into next year. The company had $295 million in cash April 30, according to the filing with the Securities and Exchange Commission. Under a forecast developed by Bear Stearns – which advised Accredited on the Lone Star deal – the company's cash could fall to about $75 million by year's end and not begin to rebound until May 2008.

Accredited considered bankruptcy in March, but instead decided to seek additional funding to keep the company afloat. It found a financial backer in Farallon Capital, a Bay Area hedge fund that provided a $230 million loan at a hefty 13 percent interest rate. Headlines at the time proclaimed that Accredited had found a subprime loan of its own.

Accredited also revealed in the filing that it faces two lawsuits in state court seeking to block the sale to Lone Star. The complaints allege that the company and its directors breached their fiduciary duties in agreeing to the Lone Star deal.

The plaintiffs are seeking injunctive relief and recovery of attorneys' fees and costs of suit. Accredited said it plans to vigorously defend itself against the suits.

Lone Star must get more than 50 percent of Accredited's shareholders to accept the tender offer to complete the deal. It has set July 17 as the expiration date, although the deadline could be extended if needed, according to filings.

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