May 5, 2015

MFA Financial, Inc. Announces First Quarter 2015 Financial Results

NEW YORK, May 5, 2015 /PRNewswire/ -- MFA Financial, Inc. (NYSE: MFA) today announced financial results for the first quarter ended March 31, 2015.

First Quarter 2015 and other highlights:

- Generated first quarter net income available to common shareholders of $78.4 million, or $0.21 per common share (based on 371.9 million weighted average common shares). As of March 31, 2015, book value per common share was $8.13.
- On April 30, 2015, MFA paid its first quarter 2015 dividend of $0.20 per share of common stock to shareholders of record as of March 27, 2015.
- In the first quarter we continued to selectively identify and acquire attractive investments within our targeted residential mortgage credit universe. Within the quarter our holdings of securities backed by re-performing and non-performing loans ("RPL/NPL MBS") increased by $310.4 million to $2.318 billion while our holdings of re-performing and non-performing whole loans increased by $35.9 million to $387.3 million.

In the first quarter, net income and dividend per common share were $0.21 and $0.20, respectively. Net income of $78.4 million includes $6.4 million of gains realized on sales of MBS.

William Gorin, MFA's CEO, said, "In the first quarter, we continued to identify attractive investment opportunities across the residential mortgage asset universe. We grew our holdings of securities backed by re-performing and non-performing loans to $2.318 billion while moving forward with the acquisition of re-performing and non-performing whole loans, bringing our holdings of credit sensitive residential whole loans to $387.3 million. In addition, we opportunistically sold $10.8 million of Non-Agency MBS issued prior to 2008 ("Legacy Non-Agency MBS"), realizing a gain of $6.4 million. This is the eleventh consecutive quarter we have realized gains through selected sales of Legacy Non-Agency MBS based on our projections of future cash flows relative to market pricing. We did not acquire any Agency MBS in this quarter.

"MFA remains positioned for a period when Federal Reserve monetary policy may become more variable based on measures of the labor markets, indicators of inflation, international developments and other incoming data. Through asset selection and hedging strategy, the estimated effective duration, a gauge of MFA's interest rate sensitivity, remains below 1.0 and measured 0.53 at quarter-end. Leverage, which reflects the ratio of our financing obligations to equity, was 3.3:1 at quarter-end."

Craig Knutson, MFA's President and COO, added, "MFA's portfolio asset selection process continues to emphasize residential mortgage credit exposure while seeking to minimize sensitivity to interest rates. Our Legacy Non-Agency portfolio has benefited from improved housing fundamentals as LTVs decrease and delinquencies decline, thus lowering our expectations of future defaults and reducing expected future losses. As a result, in the first quarter, we transferred $22.3 million from credit reserve to accretable discount. Our RPL/NPL MBS portfolio has credit protection through deal structure and subordination, while the short term nature of the cash flows minimizes its sensitivity to interest rate changes. And our credit sensitive residential whole loans offer additional exposure to residential mortgage credit while offering us the opportunity to improve outcomes through sensible and effective servicing decisions."

MFA's Legacy Non-Agency MBS had a face amount of $5.044 billion with an amortized cost of $3.785 billion and a net purchase discount of $1.258 billion at March 31, 2015. This discount consists of a $873.5 million credit reserve and other-than-temporary impairments and a $384.9 million net accretable discount. We believe this credit reserve appropriately factors in remaining uncertainties regarding underlying mortgage performance and the potential impact on future cash flows. Our Legacy Non-Agency MBS loss adjusted yield of 7.64% for the first quarter is based on projected defaults equal to 24% of underlying loan balances. On average, these loans are approximately nine years seasoned and approximately 15% are currently 60 or more days delinquent.

The Agency MBS portfolio had an average amortized cost basis of 103.8% of par as of March 31, 2015, and generated a 2.22% yield in the first quarter. The Legacy Non-Agency MBS portfolio had an average amortized cost of 75.0% of par as of March 31, 2015, and generated a loss-adjusted yield of 7.64% in the first quarter. At the end of the first quarter, MFA held approximately $2.318 billion of the senior most tranches of RPL/NPL MBS which were issued in 2013, 2014 and 2015. These securities had an amortized cost of 99.9% of par and generated a 3.62% yield for the quarter.

In addition, at March 31, 2015, our investments in credit sensitive residential whole loans totaled $387.3 million. Of this amount, $242.8 million is recorded at carrying value, or 79.5% of the unpaid principal balance and generated a loss-adjusted yield of 6.47% (5.84% net of servicing costs) during the quarter and $144.5 million is recorded at fair value in our consolidated balance sheet. On this portion of the portfolio we recorded income for the quarter of approximately $2.6 million, reflecting coupon interest payments received and changes in the fair value of the underlying loans during the quarter.

For the three months ended March 31, 2015, MFA's costs for compensation and benefits and other general and administrative expenses were $10.2 million or an annualized 1.27% of stockholders' equity as of March 31, 2015.

The following table presents the weighted average prepayment speed on MFA's MBS portfolio.

Table 1

	First Quarter 2015 Average CPR	Fourth Quarter 2014 Average CPR
Agency MBS	10.9%	12.3%
Legacy Non-Agency MBS	11.1%	12.5%
RPL/NPL MBS *(1)*	19.6%	17.6%

(1) All principal payments are considered to be prepayments for CPR purposes. Excludes RPL/NPL MBS that have not had a principal payment.

As of March 31, 2015, under its swap agreements, MFA had a weighted average fixed-pay rate of interest of 1.84% and a floating receive rate of 0.18% on notional balances totaling $3.350 billion, with an average maturity of 50 months.

The following table presents MFA's asset allocation as of March 31, 2015 and the first quarter 2015 yield on average interest earning assets, average cost of funds and net interest rate spread for the various asset types.

Table 2

ASSET ALLOCATION

At March 31, 2015	Agency MBS	Legacy Non-Agency MBS	RPL/NPL MBS	Residential Whole Loans, at Carrying Value	Residential Whole Loans, at Fair Value	Other, net *(1)*	Total
($ in Thousands)							
Fair Value/ Carrying Value	$ 5,671,195	$ 4,537,132	$ 2,318,191	$ 242,777	$ 144,507	$ 386,665	$ 13,300,467
Less Repurchase Agreements	(4,982,381)	(2,756,814)	(1,839,797)	(46,814)	(92,091)	(91,689)	(9,809,586)
Less Securitized Debt	—	(91,280)	—	—	—	—	(91,280)
Less Senior Notes	—	—	—	—	—	(100,000)	(100,000)
Equity Allocated	$ 688,814	$ 1,689,038	$ 478,394	$ 195,963	$ 52,416	$ 194,976	$ 3,299,601
Less Swaps at Market Value	—	—	—	—	—	(91,429)	(91,429)
Net Equity Allocated	$ 688,814	$ 1,689,038	$ 478,394	$ 195,963	$ 52,416	$ 103,547	$ 3,208,172
Debt/Net Equity Ratio *(2)*	7.23x	1.69x	3.85x	0.24x	1.76x	—	3.28x

For the Quarter Ended March 31, 2015

Yield on Average Interest Earning Assets *(3)*	2.22%	7.64%	3.62%	6.47%	N/A	—%	4.22%
Less Average Cost of Funds *(4)*	(1.13)	(2.85)	(1.52)	(2.20)	(2.20)	—	(1.78)
Net Interest Rate Spread	1.09%	4.79%	2.10%	4.27%	N/A	—%	2.44%

(1) Includes cash and cash equivalents and restricted cash of $262.0 million, securities obtained and pledged as collateral, $127.2 million of CRT securities, interest receivable, goodwill, prepaid and other assets, obligation to return securities obtained as collateral, interest payable, dividends payable and accrued expenses and other liabilities.

(2) Represents the sum of borrowings under repurchase agreements, payable for unsettled MBS purchases and securitized debt as a multiple of net equity allocated. The numerator of our Total Debt/Net Equity ratio also includes the obligation to return securities obtained as collateral of $506.9 million, Senior Notes and repurchase agreements financing CRT security purchases.

(3) Yields reported on our interest earning assets are calculated based on the interest income recorded and the average amortized cost for the quarter of the respective asset. At March 31, 2015 the amortized cost of our interest earning assets were as follows: Agency MBS - $5,578,196; Legacy Non-Agency MBS - $3,785,031; RPL/NPL MBS - $2,316,786; and Residential Whole Loans at carrying value - $242,777. In addition, the yield for residential whole loans at carrying value was 5.84% net of 63 basis points of servicing fee expense incurred during the quarter. For GAAP reporting purposes, such expenses are included in Other investment related operating expenses in our statement of operations. Interest payments received on residential whole loans at fair value is reported in other income as Net income on residential whole loans held at fair value in our statement of operations. Accordingly, no yield is presented as such loans are not included in interest earning assets for reporting purposes.

(4) Average cost of funds includes interest on repurchase agreements, the cost of swaps, Senior Notes and securitized debt. Agency cost of funds includes 78 basis points and Legacy Non-Agency cost of funds includes 78 basis points associated with Swaps to hedge interest rate sensitivity on these assets.

At March 31, 2015, MFA's $10.208 billion of Agency and Legacy Non-Agency MBS, were backed by Hybrid, adjustable and fixed-rate mortgages. Additional information about these MBS, including average months to reset and three-month average CPR, is presented below:

Table 3

	Agency MBS			Legacy Non-Agency MBS *(1)*			Total *(1)*		
($ in Thousands)									
Time to Reset	**Fair Value *(2)***	**Average Months to Reset *(3)***	**3 Month Average CPR *(4)***	**Fair Value**	**Average Months to Reset *(3)***	**3 Month Average CPR *(4)***	**Fair Value *(2)***	**Average Months to Reset *(3)***	**3 Month Average CPR *(4)***
< 2 years *(5)*	$ 2,154,606	6	12.5%	$ 2,920,465	6	10.4%	$ 5,075,071	6	11.3%
2-5 years	1,108,902	41	14.8	175,736	27	4.2	1,284,638	39	13.1
> 5 years	316,123	80	8.9	—	—	—	316,123	80	8.9
ARM-MBS Total	$ 3,579,631	24	12.6%	$ 3,096,201	7	10.3%	$ 6,675,832	16	11.4%
15-year fixed *(6)*	$ 2,090,803		7.9%	$ 10,606		7.3%	$ 2,101,409		7.9%
30-year fixed *(6)*	—		—	1,424,823		13.0	1,424,823		13.0
40-year fixed *(6)*	—		—	5,502		7.9	5,502		7.9
Fixed-Rate Total	$ 2,090,803		7.9%	$ 1,440,931		12.8%	$ 3,531,734		10.1%
MBS Total	$ 5,670,434		10.9%	$ 4,537,132		11.1%	$ 10,207,566		11.0%

(1) Excludes $2.318 billion of RPL/NPL MBS. Refer to Table 4 for further information.
(2) Does not include principal payments receivable of $761,000.
(3) MTR or Months to Reset is the number of months remaining before the coupon interest rate resets. At reset, the MBS coupon will adjust based upon the underlying benchmark interest rate index, margin and periodic or lifetime caps. The MTR does not reflect scheduled amortization or prepayments.
(4) 3 month average CPR weighted by positions as of beginning of each month in the quarter.
(5) Includes floating rate MBS that may be collateralized by fixed-rate mortgages.
(6) Information presented based on data available at time of loan origination.

Table 4

The following table presents certain information about our RPL/NPL MBS portfolio at March 31, 2015:

	Fair Value	**Net Coupon**	**Months to Step-Up *(1)***	**Current Credit Support *(2)***	**Original Credit Support**	**3 Month Average Bond CPR *(3)***
($ in Thousands)						

Re-Performing MBS	$ 513,103	3.66%	24	45%	41%	14.9%
Non-Performing MBS	1,805,088	3.51	30	51	51	20.1
Total RPL/NPL MBS	$ 2,318,191	3.54%	29	50%	49%	19.6%

(1) Months to step-up is the weighted average number of months remaining before the coupon interest rate increases a cumulative 300 basis points. We anticipate that the securities will be redeemed prior to the step-up date.

(2) Credit Support for a particular security is expressed as a percentage of all outstanding mortgage loan collateral. A particular security will not be subject to principal loss as long as credit enhancement is greater than zero.

(3) All principal payments are considered to be prepayments for CPR purposes. Excludes RPL/NPL MBS that have not had a principal payment.

Webcast

MFA Financial, Inc. plans to host a live audio webcast of its investor conference call on Tuesday, May 5, 2015, at 10:00 a.m. (Eastern Time) to discuss its first quarter 2015 financial results. The live audio webcast will be accessible to the general public over the internet at http://www.mfafinancial.com through the "Webcasts & Presentations" link on MFA's home page. To listen to the conference call over the internet, please go to the MFA website at least 15 minutes before the call to register and to download and install any needed audio software. Earnings presentation materials will be posted on the MFA website prior to the conference call and an audio replay will be available on the website following the call.

When used in this press release or other written or oral communications, statements which are not historical in nature, including those containing words such as "will," "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions, are intended to identify "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and, as such, may involve known and unknown risks, uncertainties and assumptions. Statements regarding the following subjects, among others, may be forward-looking: changes in interest rates and the market value of MFA's MBS; changes in the prepayment rates on the mortgage loans securing MFA's MBS; changes in the default rates and management's assumptions regarding default rates on the mortgage loans securing MFA's Non-Agency MBS; MFA's ability to borrow to finance its assets and the terms, including the cost, maturity and other terms, of any such borrowing; implementation of or changes in government regulations or programs affecting MFA's business; MFA's estimates regarding taxable income the actual amount of which is dependent on a number of factors, including, but not limited to, changes in the amount of interest income and financing costs, the method elected by the Company to accrete the market discount on Non-Agency MBS and the extent of prepayments, realized losses and changes in the composition of MFA's Agency MBS and Non-Agency MBS portfolios that may occur during the applicable tax period, including gain or loss on any MBS disposals; the timing and amount of distributions to stockholders, which are declared and paid at the discretion of MFA's Board of Directors and will depend on, among other things, MFA's taxable income, its financial results and overall financial condition and liquidity, maintenance of its REIT qualification and such other factors as the Board deems relevant; MFA's ability to maintain its qualification as a REIT for federal income tax purposes; MFA's ability to maintain its exemption from registration under the Investment Company Act of 1940, as amended (or the Investment Company Act), including statements regarding the Concept Release issued by the SEC relating to interpretive issues under the Investment Company Act with respect to the status under the Investment Company Act of certain companies that are in engaged in the business of acquiring mortgages and mortgage-related interests; MFA's ability to successfully implement its strategy to grow its residential whole loan portfolio; and risks associated with investing in real estate assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including those described in the annual, quarterly and current reports that MFA files with the Securities and Exchange Commission, could cause MFA's actual results to differ materially from those projected in any forward-looking statements it makes. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect MFA. Except as required by law, MFA is not obligated to, and does not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

MFA FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Amounts)	March 31, 2015	December 31, 2014
	(Unaudited)	
Assets:		
Mortgage-backed securities ("MBS") and credit risk transfer ("CRT") securities:		
Agency MBS, at fair value ($5,302,714 and $5,519,813 pledged as collateral, respectively)	$ 5,671,195	$ 5,904,207
Non-Agency MBS, at fair value ($4,971,558 and $2,377,343 pledged as collateral, respectively)	6,161,390	3,358,426
Non-Agency MBS transferred to consolidated variable interest entities ("VIEs"), at fair value	693,933	1,397,006
CRT securities, at fair value ($118,384 and $94,610 pledged as collateral, respectively)	127,182	102,983
Securities obtained and pledged as collateral, at fair value	506,861	512,105
Residential whole loans, at carrying value ($66,748 and $67,536 pledged as collateral, respectively)	242,777	207,923
Residential whole loans, at fair value ($142,438 and $143,072 pledged as collateral, respectively)	144,507	143,472
Cash and cash equivalents	168,717	182,437
Restricted cash	93,287	67,255
Interest receivable	32,885	31,257
Derivative instruments:		
MBS linked transactions, net ("Linked Transactions"), at fair value	—	398,336
Interest rate swap agreements ("Swaps"), at fair value	1,051	3,136
Goodwill	7,189	7,189
Prepaid and other assets	50,781	39,012
Total Assets	$ 13,901,755	$ 12,354,744
Liabilities:		
Repurchase agreements	$ 9,809,586	$ 8,267,388
Securitized debt	91,280	110,574
Obligation to return securities obtained as collateral, at fair value	506,861	512,105
8% Senior Notes due 2042 ("Senior Notes")	100,000	100,000
Accrued interest payable	12,341	13,095
Swaps, at fair value	92,480	62,198
Dividends and dividend equivalents rights ("DERs") payable	74,581	74,529
Accrued expenses and other liabilities	6,454	11,583
Total Liabilities	$ 10,693,583	$ 9,151,472
Stockholders' Equity:		
Preferred stock, $.01 par value; 7.50% Series B cumulative redeemable; 8,050 shares authorized; 8,000 shares issued and outstanding ($200,000 aggregate liquidation preference)	$ 80	$ 80
Common stock, $.01 par value; 886,950 shares authorized; 370,134 and 370,084 shares issued and outstanding, respectively	3,701	3,701
Additional paid-in capital, in excess of par	3,014,594	3,013,634
Accumulated deficit	(569,031)	(568,596)
Accumulated other comprehensive income	758,828	754,453
Total Stockholders' Equity	$ 3,208,172	$ 3,203,272
Total Liabilities and Stockholders' Equity	$ 13,901,755	$ 12,354,744

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts)	Three Months Ended March 31, 2015	2014
	(Unaudited)	
Interest Income:		
Agency MBS	$ 31,673	$ 39,329
Non-Agency MBS	81,248	43,155
Non-Agency MBS transferred to consolidated VIEs	12,043	38,664
CRT securities	1,360	—
Residential whole loans held at carrying value	3,591	—
Cash and cash equivalent investments	27	26
Interest Income	$ 129,942	$ 121,174
Interest Expense:		
Repurchase agreements	$ 41,182	$ 36,729
Securitized debt	750	2,185
Senior Notes	2,008	2,007
Interest Expense	$ 43,940	$ 40,921
Net Interest Income	$ 86,002	$ 80,253
Other-Than-Temporary Impairments:		
Total other-than-temporary impairment losses	$ (395)	$ —
Portion of loss reclassed from other comprehensive income	(12)	—
Net Impairment Losses Recognized in Earnings	$ (407)	$ —
Other Income, net:		
Unrealized net gains and net interest income from Linked Transactions	$ —	$ 3,251
Net income on residential whole loans held at fair value	2,576	—
Gain on sales of MBS	6,435	3,571
Other, net	26	(416)
Other Income, net	$ 9,037	$ 6,406

Operating and Other Expense:		
Compensation and benefits	$ 6,746	$ 6,507
Other general and administrative expense	3,457	3,964
Other investment related operating expenses	2,256	—
Operating and Other Expense	$ 12,459	$ 10,471
Net Income	$ 82,173	$ 76,188
Less Preferred Stock Dividends	3,750	3,750
Net Income Available to Common Stock and Participating Securities	$ 78,423	$ 72,438
Earnings per Common Share - Basic and Diluted	$ 0.21	$ 0.20
Dividends Declared per Share of Common Stock	$ 0.20	$ 0.20

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