May 4, 2016

MFA Financial, Inc. Announces First Quarter 2016 Financial Results

NEW YORK, May 4, 2016 /PRNewswire/ -- MFA Financial, Inc. (NYSE: MFA) today announced financial results for the first quarter ended March 31, 2016.

First Quarter 2016 and other highlights:

- Generated first quarter net income available to common shareholders of $74.3 million, or $0.20 per common share (based on 370.9 million weighted average common shares outstanding). As of March 31, 2016, book value per common share was $7.17.
- On April 29, 2016, MFA paid its first quarter 2016 dividend of $0.20 per share of common stock to shareholders of record as of March 28, 2016.
- MFA acquired an additional $161 million of credit sensitive residential whole loans increasing the portfolio to $1.0 billion. In addition, MFA acquired $302.2 million of 3 year step-up RPL/NPL securities during the quarter.

William Gorin, MFA's CEO, said, "In the first quarter, we continued to identify and acquire attractive credit sensitive residential mortgage assets. We increased our acquisitions of re-performing and non-performing whole loans, bringing our holdings of credit sensitive residential whole loans to $1.0 billion. We also acquired $302.2 million of 3 year step-up RPL/NPL securities during the quarter. Further, we opportunistically purchased $44.2 million of Non-Agency MBS issued prior to 2008 ("Legacy Non-Agency MBS") and also sold $32.0 million, realizing gains for the quarter of $9.7 million. This is the fifteenth 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 well-positioned for a period when Federal Reserve monetary policy may become more variable based on indicators of inflation, measures of the labor markets, 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 0.55 at quarter-end. Leverage, which reflects the ratio of our financing obligations to equity, was 3.4:1 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. 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 affording us the opportunity to improve outcomes through sensible and effective servicing decisions."

MFA's Legacy Non-Agency MBS had a face amount of $4.1 billion with an amortized cost of $3.1 billion and a net purchase discount of $1.0 billion at March 31, 2016. This discount consists of a $757.6 million credit reserve and other-than-temporary impairments and a $279.5 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 7.61% for the first quarter is based on projected defaults equal to 21% of underlying loan balances. On average, these loans are approximately ten years seasoned and approximately 13.1% 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, 2016, and generated a 2.07% yield in the first quarter. The Legacy Non-Agency MBS portfolio had an average amortized cost of 74.9% of par as of March 31, 2016, and generated a loss-adjusted yield of 7.61% in the first quarter. At the end of the first quarter, MFA held approximately $2.5 billion of the senior most tranches of RPL/NPL MBS. These securities had an amortized cost of 99.9% of par and generated a 3.97% yield for the quarter.

In addition, at March 31, 2016, our investments in credit sensitive residential whole loans totaled $1.0 billion. Of this amount, $376.2 million is recorded at carrying value, or 84.2% of the interest-bearing unpaid principal balance and generated a loss-adjusted yield of 6.53% (6.00% net of servicing costs) during the quarter and $647.4 million is recorded at fair value in our consolidated balance sheet. On this portion of the portfolio we recorded gains for the quarter of approximately $11.9 million, primarily reflecting changes in the fair value of the underlying loans and coupon interest payments received during the quarter.

For the three months ended March 31, 2016, MFA's costs for compensation and benefits and other general and administrative expenses were $11.3 million or an annualized 1.58% of stockholders' equity as of March 31, 2016.

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

Table 1

	First Quarter 2016 Average CPR	Fourth Quarter 2015 Average CPR
Agency MBS	11.7%	11.8%
Legacy Non-Agency MBS	13.3%	14.6%
RPL/NPL MBS *(1)*	23.0%	21.5%

(1) All principal payments are considered to be prepayments for CPR purposes.

As of March 31, 2016, under its swap agreements, MFA had a weighted average fixed-pay rate of interest of 1.82% and a floating receive rate of 0.44% on notional balances totaling $3.0 billion, with an average maturity of 43 months.

The following table presents MFA's asset allocation as of March 31, 2016 and the first quarter 2016 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, 2016	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	$ 4,544,883	$ 3,604,592	$ 2,496,165	$ 376,235	$ 647,360	$ 563,348	$ 12,232,583
Less Payable for Unsettled Purchases	—	—	—	(24)	—	—	(24)
Less Repurchase Agreements	(2,851,996)	(2,459,499)	(1,911,483)	(154,135)	(434,123)	(139,409)	(7,950,645)
Less FHLB advances	(1,193,000)	—	—	—	—	—	(1,193,000)
Less Securitized Debt	—	(11,821)	—	—	—	—	(11,821)
Less Senior Notes	—	—	—	—	—	(96,706)	(96,706)
Equity Allocated	$ 499,887	$ 1,133,272	$ 584,682	$ 222,076	$ 213,237	$ 327,233	$ 2,980,387
Less Swaps at Market Value	—	—	—	—	—	(118,741)	(118,741)
Net Equity Allocated	$ 499,887	$ 1,133,272	$ 584,682	$ 222,076	$ 213,237	$ 208,492	$ 2,861,646
Debt/Net Equity Ratio *(2)*	8.1x	2.2x	3.3x	0.7x	2.0x	—	3.4x
For the Quarter Ended March 31, 2016							
Yield on Average Interest Earning Assets *(3)*	2.07%	7.61%	3.97%	6.53%	N/A	—%	4.23%
Less Average Cost of Funds *(4)*	(1.27)	(2.86)	(2.07)	(2.80)	(3.34)	—	(2.05)
Net Interest Rate Spread	0.80%	4.75%	1.90%	3.73%	N/A	—%	2.18%

(1) Includes cash and cash equivalents and restricted cash of $269.9 million, securities obtained and pledged as collateral, $215.8 million of CRT securities, other assets, obligation to return securities obtained as collateral and other liabilities.

(2) Represents the sum of borrowings under repurchase agreements, FHLB advances, payable for unsettled 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 $513.4 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, 2016 the amortized cost of our interest earning assets were as follows: Agency MBS - $4,502,875; Legacy Non-Agency MBS - $3,098,732; RPL/NPL MBS - $2,513,829; and Residential Whole Loans at carrying value - $376,235. In addition, the yield for residential whole loans at carrying value was 6.00% net of 53 basis points of servicing fee expense incurred during the quarter. For GAAP reporting purposes, such expenses are included in Loan servicing and other 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 gain 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 and other advances, the cost of swaps, Senior Notes and securitized debt. Agency cost of funds includes 65 basis points and Legacy Non-Agency cost of funds includes 65 basis points associated with Swaps to hedge interest rate sensitivity on these assets.

At March 31, 2016, MFA's $8.1 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

($ in Thousands)	Agency MBS			Legacy Non-Agency MBS *(1)*			Total *(1)*		
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)*	$ 1,904,332	6	13.2%	$ 2,423,295	5	12.6%	$ 4,327,627	6	12.8%
2-5 years	727,022	35	15.7	—	—	—	727,022	35	15.7
> 5 years	190,182	74	7.1	—	—	—	190,182	74	7.1
ARM-MBS Total	$ 2,821,536	18	13.4%	$ 2,423,295	5	12.6%	$ 5,244,831	12	13.0%
15-year fixed *(6)*	$ 1,722,229		8.9%	$ 7,273		2.0%	$ 1,729,502		8.9%
30-year fixed *(6)*	—		—	1,167,667		15.2	1,167,667		15.2
40-year fixed *(6)*	—		—	6,357		13.2	6,357		13.2
Fixed-Rate Total	$ 1,722,229		8.9%	$ 1,181,297		15.1%	$ 2,903,526		11.6%
MBS Total	$ 4,543,765		11.7%	$ 3,604,592		13.3%	$ 8,148,357		12.5%

(1) Excludes $2.5 billion of RPL/NPL MBS. Refer to Table 4 for further information.
(2) Does not include principal payments receivable of $1.1 million.
(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, 2016:

($ in Thousands)	**Fair Value**	**Net Coupon**	**Months to Step-Up *(1)***	**Current Credit Support *(2)***	**Original Credit Support**	**3 Month Average Bond CPR *(3)***
Re-Performing MBS	$ 481,921	3.72%	15	47%	40%	14.2%
Non-Performing MBS	2,014,244	3.79	23	49	48	25.0
Total RPL/NPL MBS	$ 2,496,165	3.78%	22	48%	47%	23.0%

(1) Months to step-up is the weighted average number of months remaining before the coupon interest rate increases pursuant to the first coupon reset. 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.

Webcast

MFA Financial, Inc. plans to host a live audio webcast of its investor conference call on Wednesday, May 4, 2016, at 10:00 a.m. (Eastern Time) to discuss its first quarter 2016 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; credit risks underlying MFA's assets, including changes in the default rates and management's assumptions regarding default rates on the mortgage loans securing MFA's Non-Agency MBS and relating to MFA's residential whole loan portfolio; 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; expected returns on our investments in non-performing residential whole loans (NPLs), which are affected by, among other things, the length of time required to foreclose upon, sell, liquidate or otherwise reach a resolution of the property underlying the NPL, home price values, amounts advanced to carry the asset (e.g., taxes, insurance, maintenance expenses, etc. on the underlying property) and the amount ultimately realized upon resolution of the asset; 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, 2016 (Unaudited)	December 31, 2015
Assets:		
Mortgage-backed securities ("MBS") and credit risk transfer ("CRT") securities:		
Agency MBS, at fair value ($4,317,158 and $4,532,094 pledged as collateral, respectively)	$ 4,544,883	$ 4,752,244
Non-Agency MBS, at fair value ($5,003,131 and $4,874,372 pledged as collateral, respectively)	5,902,305	5,822,519
Non-Agency MBS transferred to consolidated variable interest entities ("VIEs"), at fair value	198,452	598,298
CRT securities, at fair value ($196,350 and $170,352 pledged as collateral, respectively)	215,803	183,582
Securities obtained and pledged as collateral, at fair value	513,409	507,443
Residential whole loans, at carrying value ($200,854 and $93,692 pledged as collateral, respectively)	376,235	271,845
Residential whole loans, at fair value ($609,769 and $585,971 pledged as collateral, respectively)	647,360	623,276
Cash and cash equivalents	146,236	165,007
Restricted cash	123,676	71,538
Other assets	176,082	166,799
Total Assets	$ 12,844,441	$ 13,162,551

Liabilities:		
Repurchase agreements and other advances	$ 9,143,645	$ 9,387,622
Securitized debt	11,821	21,868
Obligation to return securities obtained as collateral, at fair value	513,409	507,443
8% Senior Notes due 2042 ("Senior Notes")	96,706	96,697
Other liabilities	217,214	181,660
Total Liabilities	$ 9,982,795	$ 10,195,290
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; 370,977 and 370,584 shares issued and outstanding, respectively	3,710	3,706
Additional paid-in capital, in excess of par	3,019,891	3,019,956
Accumulated deficit	(572,445)	(572,332)
Accumulated other comprehensive income	410,410	515,851
Total Stockholders' Equity	$ 2,861,646	$ 2,967,261
Total Liabilities and Stockholders' Equity	$ 12,844,441	$ 13,162,551

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts)	Three Months Ended March 31, 2016	2015
	(Unaudited)	
Interest Income:		
Agency MBS	$ 23,997	$ 31,673
Non-Agency MBS	80,305	81,248
Non-Agency MBS transferred to consolidated VIEs	5,847	12,043
CRT securities	2,692	1,360
Residential whole loans held at carrying value	4,496	3,591
Cash and cash equivalent investments	140	27
Interest Income	$ 117,477	$ 129,942
Interest Expense:		
Repurchase agreements and other advances	$ 45,395	$ 41,182
Senior Notes and other interest expense	2,205	2,758
Interest Expense	$ 47,600	$ 43,940
Net Interest Income	$ 69,877	$ 86,002
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:		
Net gain on residential whole loans held at fair value	11,881	2,034
Gain on sales of MBS	9,745	6,435
Other, net	1,026	311
Other Income, net	$ 22,652	$ 8,780
Operating and Other Expense:		
Compensation and benefits	$ 7,407	$ 6,746
Other general and administrative expense	3,918	3,457
Loan servicing and other related operating expenses	3,134	1,999
Operating and Other Expense	$ 14,459	$ 12,202
Net Income	$ 78,070	$ 82,173
Less Preferred Stock Dividends	3,750	3,750
Net Income Available to Common Stock and Participating Securities	$ 74,320	$ 78,423
Earnings per Common Share - Basic and Diluted	$ 0.20	$ 0.21
Dividends Declared per Share of Common Stock	$ 0.20	$ 0.20

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