

August 7, 2019



MFA Financial, Inc. Announces Second Quarter 2019 Financial Results

NEW YORK, Aug. 7, 2019 /PRNewswire/ -- MFA Financial, Inc. (NYSE: MFA) today announced its financial results for the second quarter ended June 30, 2019.

Second Quarter 2019 and other highlights:

- MFA generated second quarter GAAP net income of \$89.3 million, or \$0.20 per common share. Core earnings, a non-GAAP financial measure of MFA's operating performance that is calculated by adjusting GAAP net income to exclude the impact of unrealized gains and losses on certain of our investments, was also \$0.20 per common share.
- As of June 30, 2019, book value per common share was \$7.11, unchanged from the prior quarter.
- Continued successful execution of our investment strategy resulted in net portfolio growth for the seventh consecutive quarter. MFA acquired, or committed to acquire, approximately \$1.4 billion of residential mortgage assets in the second quarter, including \$1.0 billion of residential whole loans, increasing our total investment portfolio by \$391 million.
- Net interest income on MFA's residential whole loan portfolio increased 8.9% from the prior quarter to \$19.2 million. This was driven primarily by acquisitions of Non-QM, fix and flip and single family rental loans.
- On July 31, 2019, MFA paid its second quarter 2019 dividend of \$0.20 per share of common stock to shareholders of record as of July 1, 2019.

Craig Knutson, MFA's CEO and President, said, "MFA's investment portfolio growth in the second quarter of 2019 was driven by acquisitions of \$1.4 billion of new assets. Our residential whole loan and REO portfolio increased by \$724 million, largely due to investments in purchased performing loans. In addition, MSR-related assets increased by \$345 million. Our growth in purchased performing loans was driven by the acquisition of Non-QM, fix and flip and single family rental loans. We continue to gain traction on these new acquisition efforts, which involve relationships cultivated over the past two years. Through our willingness and ability to explore and enter into various arrangements, including flow agreements, strategic alliances and also minority equity investments, we have been able to partner with originators to source attractive new investments, while enabling them to grow with support from MFA as a reliable provider of capital."

Mr. Knutson added, "Through our asset selection and hedging strategy, our estimated net effective duration, a gauge of our portfolio's sensitivity to interest rates, remained relatively low and measured 1.11 at quarter-end. Our portfolio continues to deliver book value stability. As of June 30, 2019, MFA's book value per common share was \$7.11, unchanged from March 31, 2019. Leverage, which reflects the ratio of our financing obligations to equity, was 2.8:1 at quarter-end, up slightly from 2.7:1 at the end of the first quarter."

At June 30, 2019, our investments in residential whole loans totaled \$5.9 billion. Of this amount, \$4.4 billion is recorded at carrying value and generated a yield of 5.72% during the quarter, and \$1.5 billion is recorded at fair value on our consolidated balance sheet. We recorded gains for the quarter on residential whole loans measured at fair value of approximately \$51.5 million, primarily reflecting coupon interest payments and other cash received during the quarter together with changes in the fair value of the underlying loans. In addition, as of the end of the quarter, we held approximately \$334 million of REO properties. MFA's proactive asset management team has been able to shorten liquidation timelines and increase property sale proceeds, leading to improved outcomes and better returns.

MFA's Legacy Non-Agency MBS had a face amount of \$1.8 billion with an amortized cost of \$1.2 billion and a net purchase discount of \$596.8 million at June 30, 2019. This discount consists of a \$479.6 million credit reserve and other-than-temporary impairments and a \$117.2 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 generated a yield of 11.30% for the quarter. The portfolio continues to outperform our credit assumptions and has underlying mortgage loans that are on average approximately thirteen years seasoned and only 10.9% are currently 60 or more days delinquent.

As of June 30, 2019, the Agency MBS portfolio totaled \$2.3 billion, had an amortized cost basis of 103.9% of par and generated a yield of 2.50% for the second quarter. At the end of the second quarter, MFA held approximately \$1.0 billion of RPL/NPL MBS. These securities had an amortized cost basis of 99.95% of par and generated a yield of 4.98% for the quarter. In addition, our investments in MSR-related assets at June 30, 2019 totaled \$1.2 billion and generated a yield of 5.34% for the second quarter. Our investments in CRT securities totaled \$407.3 million at June 30, 2019, and

(\$ in Millions)									
< 2 years (5)	\$ 869	6	22.0%	\$ 1,034	5	16.8%	\$ 1,903	5	19.1%
2-5 years	107	37	9.6	—	—	—	107	37	9.6
> 5 years	9	72	6.1	—	—	—	9	72	6.1
ARM-MBS Total	\$ 985	10	20.5%	\$ 1,034	5	16.8%	\$ 2,019	7	18.6%
15-year fixed (6)	\$ 656		10.9%	\$ 1		45.1%	\$ 657		11.9%
30-year fixed (6)	616		23.4	607		13.6	1,223		18.2
40-year fixed (6)	—		—	46		8.3	46		8.3
Fixed-Rate Total	\$ 1,272		16.6%	\$ 654		14.0%	\$ 1,926		15.7%
MBS Total	\$ 2,257		18.3%	\$ 1,688		15.7%	\$ 3,945		17.1%

(1) Excludes \$1.0 billion of RPL/NPL MBS.

(2) Does not include principal payments receivable of \$682,000.

(3) 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. Months to Reset 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.

Webcast

MFA Financial, Inc. plans to host a live audio webcast of its investor conference call on Wednesday, August 7, 2019, at 10:00 a.m. (Eastern Time) to discuss its second quarter 2019 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.

Cautionary Language Regarding Forward-Looking Statements

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," "could," "would," "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 (i.e., fair) value of MFA's MBS, residential whole loans, CRT securities and other assets; changes in the prepayment rates on residential mortgage assets, an increase of which could result in a reduction of the yield on certain investments in our portfolio and could require us to reinvest the proceeds received by us as a result of such prepayments in investments with lower coupons, while a decrease in which could result in an increase in the interest rate duration of certain investments in our portfolio making their valuation more sensitive to changes in interest rates and could result in lower forecasted cash flows or, in certain circumstances, other-than-temporary impairment on certain Legacy Non-Agency MBS purchased at a discount; 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 borrowings; 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 MFA to accrete the market discount on Non-Agency MBS and residential whole loans and the extent of prepayments, realized losses and changes in the composition of MFA's Agency MBS, Non-Agency MBS and residential whole loan portfolios that may occur during the applicable tax period, including gain or loss on any MBS disposals and whole loan modifications, foreclosures and liquidations; 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 MFA's Board of Directors 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 Securities and Exchange Commission ("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 engaged in the business of acquiring mortgages and mortgage-related interests; MFA's ability to continue growing its residential whole loan portfolio, which is dependent on, among other things, the supply of loans offered for sale in the market; expected returns on our investments in nonperforming 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; targeted or expected returns on MFA's investments in recently-originated loans, the performance of which is, similar to MFA's other mortgage loan investments, subject to, among other things, prepayment risk, credit risk and financing cost associated with such investments; risks associated with our investments in MSR-related assets, including servicing, regulatory and economic risks, 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 SEC, could cause MFA's actual results to differ materially from those projected in any forward-looking statements it makes. All forward-looking statements are based on beliefs, assumptions and expectations of MFA's future performance, taking into account all information currently available. Readers are cautioned not to place undue reliance on these forward-looking statements, which 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 Per Share Amounts)	June 30, 2019 (Unaudited)	December 31, 2018
Assets:		
Residential mortgage securities:		
Agency MBS, at fair value (\$2,223,163 and \$2,575,331 pledged as collateral, respectively)	\$ 2,257,375	\$ 2,698,213
Non-Agency MBS, at fair value (\$2,705,825 and \$3,248,900 pledged as collateral, respectively)	2,728,270	3,318,299
Credit Risk Transfer ("CRT") securities, at fair value (\$403,381 and \$480,315 pledged as collateral, respectively)	407,316	492,821
Residential whole loans, at carrying value (\$2,814,259 and \$1,645,372 pledged as collateral, respectively) (1)	4,391,983	3,016,715
Residential whole loans, at fair value (\$777,087 and \$738,638 pledged as collateral, respectively) (1)	1,525,814	1,665,978
Mortgage servicing rights ("MSR") related assets (\$1,169,872 and \$611,807 pledged as collateral, respectively)	1,169,872	611,807
Cash and cash equivalents	88,661	51,965
Restricted cash	31,056	36,744
Other assets	607,745	527,785
Total Assets	<u>\$ 13,208,092</u>	<u>\$ 12,420,327</u>
Liabilities:		
Repurchase agreements	\$ 8,630,642	\$ 7,879,087
Other liabilities	1,174,077	1,125,139
Total Liabilities	<u>\$ 9,804,719</u>	<u>\$ 9,004,226</u>
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; 450,622 and 449,787 shares issued and outstanding, respectively	4,506	4,498
Additional paid-in capital, in excess of par	3,625,399	3,623,275
Accumulated deficit	(638,396)	(632,040)
Accumulated other comprehensive income	411,784	420,288
Total Stockholders' Equity	<u>\$ 3,403,373</u>	<u>\$ 3,416,101</u>
Total Liabilities and Stockholders' Equity	<u>\$ 13,208,092</u>	<u>\$ 12,420,327</u>

(1) Includes approximately \$197.0 million and \$209.4 million of Residential whole loans, at carrying value and \$616.0 million and \$694.7 million of Residential whole loans, at fair value transferred to consolidated VIEs at June 30, 2019 and December 31, 2018, respectively. Such assets can be used only to settle the obligations of each respective VIE.

**MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS**

(In Thousands, Except Per Share Amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(Unaudited)				
Interest Income:				
Agency MBS	\$ 15,274	\$ 13,170	\$ 33,715	\$ 28,463
Non-Agency MBS	52,027	55,043	106,028	111,145
CRT securities	5,094	8,695	11,294	18,191
Residential whole loans held at carrying value	57,879	17,935	107,499	32,264
MSR-related assets	12,338	6,219	22,958	13,842
Cash and cash equivalent investments	1,036	685	1,800	1,594
Other interest-earning assets	1,287	—	2,593	—
Interest Income	<u>\$ 144,935</u>	<u>\$ 101,747</u>	<u>\$ 285,887</u>	<u>\$ 205,499</u>
Interest Expense:				
Repurchase agreements	\$ 75,890	\$ 46,234	\$ 146,699	\$ 91,951
Other interest expense	9,154	5,576	17,371	10,413
Interest Expense	<u>\$ 85,044</u>	<u>\$ 51,810</u>	<u>\$ 164,070</u>	<u>\$ 102,364</u>
Net Interest Income	<u>\$ 59,891</u>	<u>\$ 49,937</u>	<u>\$ 121,817</u>	<u>\$ 103,135</u>
Other Income, net:				
Net gain on residential whole loans measured at fair value through earnings	\$ 51,473	\$ 32,443	\$ 76,740	\$ 70,941
Net realized gain on sales of residential mortgage securities	7,710	7,429	32,319	16,246
Net unrealized gain/(loss) on residential mortgage securities measured at fair value through earnings	—	(2,351)	8,672	(3,231)
Net (loss)/gain on Swaps not designated as hedges for accounting purposes	(7,394)	353	(16,338)	353
Other, net	5,073	3,132	6,638	4,357
Other Income, net	<u>\$ 56,862</u>	<u>\$ 41,006</u>	<u>\$ 108,031</u>	<u>\$ 88,666</u>

Operating and Other Expense:				
Compensation and benefits	\$ 7,841	\$ 7,038	\$ 16,395	\$ 13,786
Other general and administrative expense	5,934	5,582	10,579	9,414
Loan servicing and other related operating expenses	9,938	7,926	20,977	14,811
Operating and Other Expense	\$ 23,713	\$ 20,548	\$ 47,951	\$ 38,011
Net Income	\$ 93,040	\$ 70,395	\$ 181,897	\$ 153,790
Less Preferred Stock Dividends	3,750	3,750	7,500	7,500
Net Income Available to Common Stock and Participating Securities	\$ 89,290	\$ 66,645	\$ 174,397	\$ 146,290
Basic Earnings per Common Share	\$ 0.20	\$ 0.17	\$ 0.39	\$ 0.36
Diluted Earnings per Common Share	\$ 0.20	\$ 0.17	\$ 0.38	\$ 0.36
Dividends Declared per Share of Common Stock	\$ 0.20	\$ 0.20	\$ 0.40	\$ 0.40

Reconciliation of GAAP net income available to common stock and participating securities to non-GAAP Core earnings

"Core earnings" is a non-GAAP financial measure of our operating performance, within the meaning of Regulation G and Item 10(e) of Regulation S-K, as promulgated by the Securities and Exchange Commission. Core earnings excludes certain unrealized gains and losses that we are required to include in GAAP Net Income each period because management believes that these items, which to date have typically resulted from short-term market volatility or other market technical factors and not due to changes in fundamental asset cash flows, are not reflective of the economic income generated by our investment portfolio. Accordingly, we believe that the adjustments to compute Core earnings specified below better allow investors and analysts to evaluate our financial results, including by analyzing changes in our Core earnings between periods. In addition to using Core earnings in the evaluation of investment portfolio performance over time, Management considers estimates of periodic Core earnings as an input to the determination of the level of quarterly dividends to common shareholders that are recommended to the Board of Directors for approval and in its forecasting and decision-making processes relating to the allocation of capital between different asset classes.

We believe that Core earnings provides useful supplemental information to both management and investors in evaluating our financial results. Core earnings should be used in conjunction with results presented in accordance with GAAP. Core earnings does not represent and should not be considered as a substitute for Net Income or Cash Flows from Operating Activities, each as determined in accordance with GAAP, and our calculation of this measure may not be comparable to similarly titled measures reported by other companies.

The following table provides a reconciliation of our GAAP net income available to common stock and participating securities to our non-GAAP Core earnings for the three months ended June 30, 2019, March 31, 2019 and December 31, 2018:

(In Thousands, Except Per Share Amounts)	Three Months Ended		
	June 30, 2019	March 31, 2019 (Unaudited)	December 31, 2018
GAAP Net income to common stockholders - basic	\$ 89,014	\$ 84,851	\$ 56,888
Adjustments:			
Unrealized loss/(gain) on CRT securities measured at fair value through earnings	2,040	(2,690)	27,246
Unrealized net (gain)/loss on Agency MBS measured at fair value through earnings and related swaps that are not accounted for as hedging transactions	(918)	(4,840)	11,758
Total adjustments	\$ 1,122	\$ (7,530)	\$ 39,004
Core earnings	\$ 90,136	\$ 77,321	\$ 95,892
GAAP earnings per common share	\$ 0.20	\$ 0.19	\$ 0.13
Core earnings per common share	\$ 0.20	\$ 0.17	\$ 0.21
Weighted average common shares for earnings per share	450,538	450,358	449,559

INVESTOR CONTACT: InvestorRelations@mfafinancial.com
212-207-6488
www.mfafinancial.com

MEDIA CONTACT: Abernathy MacGregor
Tom Johnson
212-371-5999

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