

May 4, 2017



MFA Financial, Inc. Announces First Quarter 2017 Financial Results

NEW YORK, May 4, 2017 /PRNewswire/ -- MFA Financial, Inc. (NYSE: MFA) today announced its financial results for the first quarter ended March 31, 2017.

First Quarter 2017 and other highlights:

- MFA generated first quarter net income available to common shareholders of \$74.3 million, or \$0.20 per common share (based on 372.6 million weighted average common shares outstanding). As of March 31, 2017, book value per common share was \$7.66.
- On April 28, 2017, MFA paid its first quarter 2017 dividend of \$0.20 per share of common stock to shareholders of record as of March 29, 2017.
- MFA acquired \$150.0 million of 3 year step-up securities and \$87.4 million of Credit Risk Transfer securities during the quarter.

William Gorin, MFA's CEO, said, "In the first quarter, we continued to execute our strategy of targeted investment within the residential mortgage universe with a focus on credit sensitive assets. We acquired 3 year step-up securities and Credit Risk Transfer securities during the quarter. Further, we opportunistically sold \$21.6 million of Non-Agency MBS issued prior to 2008 ("Legacy Non-Agency MBS"), realizing gains of \$10.0 million for the quarter. This is the nineteenth 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.

"MFA remains well-positioned to generate attractive returns despite historically low interest rates. Through asset selection and hedging strategy, the estimated net effective duration, a gauge of MFA's interest rate sensitivity, remains low and measured 0.69 at quarter-end. MFA's book value per common share increased to \$7.66 versus \$7.62 at the end of 2016. Leverage, which reflects the ratio of our financing obligations to equity, was 2.9:1 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. As housing prices maintain their upward trend and borrowers repair their credit and balance sheets, MFA's Legacy Non-Agency MBS portfolio continues to outperform our credit assumptions. In the first quarter of 2017, we reduced our credit reserve on this portfolio by \$9.3 million. Also, 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 \$3.3 billion with an amortized cost of \$2.4 billion and a net purchase discount of \$921.6 million at March 31, 2017. This discount consists of a \$653.3 million credit reserve and other-than-temporary impairments and a \$268.2 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 have underlying mortgage loans that are

on average approximately eleven years seasoned and approximately 12.4% are currently 60 or more days delinquent.

The Agency MBS portfolio had an amortized cost basis of 103.8% of par as of March 31, 2017, and generated a 1.98% yield in the first quarter. The Legacy Non-Agency MBS portfolio had an amortized cost of 72.4% of par as of March 31, 2017, and generated a loss-adjusted yield of 8.90% in the first quarter. At the end of the first quarter, MFA held approximately \$2.5 billion of 3 year step-up securities. These securities had an amortized cost of 99.9% of par and generated a 4.02% yield for the quarter.

In addition, at March 31, 2017, our investments in credit sensitive residential whole loans totaled \$1.3 billion. Of this amount, \$573.7 million is recorded at carrying value, or 86.0% of the interest-bearing unpaid principal balance, and generated a loss-adjusted yield of 5.95% (5.65% net of servicing costs) during the quarter, and \$775.2 million is recorded at fair value on our consolidated balance sheet. On this portion of the portfolio, we recorded gains for the quarter of approximately \$13.8 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, 2017, MFA's costs for compensation and benefits and other general and administrative expenses were \$12.0 million, or an annualized 1.57% of stockholders' equity as of March 31, 2017.

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

Table 1

	<u>First Quarter 2017 Average CPR</u>	<u>Fourth Quarter 2016 Average CPR</u>
Agency MBS	15.1%	15.9%
Legacy Non-Agency MBS	16.8%	17.3%
3 Year Step-up securities (1)	25.7%	25.6%

(1) All principal payments are considered to be prepayments for conditional prepayment rate ("CPR") purposes. 3 year step-up securities are securitized financial instruments that are primarily backed by securitized re-performing and non-performing Loans. The majority of these securities are structured such that the coupon increases up to 300 basis points at 36 months from issuance or sooner.

As of March 31, 2017, under its swap agreements, MFA had a weighted average fixed-pay rate of interest of 1.89% and a floating receive rate of 0.94% on notional balances totaling \$2.9 billion, with an average maturity of 32 months.

The following table presents MFA's asset allocation as of March 31, 2017, and the first quarter 2017 yield on average interest earning assets, average cost of funds and net interest rate spread for the various asset types.

Table 2

ASSET ALLOCATION

<u>At March 31, 2017</u> <i>(\$ in Millions)</i>	<u>Agency MBS</u>	<u>Legacy Non- Agency MBS</u>	<u>3 Year Step-Up Securities</u>	<u>Credit Risk Transfer Securities</u>	<u>Residential Whole Loans, at Carrying Value</u>	<u>Residential Whole Loans, at Fair Value</u>	<u>Other, net (1)</u>	<u>Total</u>
Fair Value/Carrying Value	\$ 3,495	\$ 3,015	\$ 2,453	\$ 498	\$ 574	\$ 775	\$ 480	\$ 11,290
Less Repurchase Agreements	(3,094)	(1,940)	(1,875)	(345)	(328)	(508)	(47)	(8,137)

Less Senior Notes	—	—	—	—	—	—	(97)	(97)
Net Equity Allocated	\$ 401	\$ 1,075	\$ 578	\$ 153	\$ 246	\$ 267	\$ 336	\$ 3,056
Debt/Net Equity Ratio (2)	7.7x	1.8x	3.2x	2.3x	1.3x	1.9x		2.9x

For the Quarter Ended March 31, 2017

Yield on Average Interest Earning Assets (3)	1.98%	8.90%	4.02%	5.93%	5.95%	N/A	—%	4.61%
Less Average Cost of Funds (4)	(1.49)	(3.05)	(2.30)	(2.25)	(3.19)	(3.29)	—	(2.34)
Net Interest Rate Spread	0.49%	5.85%	1.72%	3.68%	2.76%	N/A	—%	2.27%

- (1) Includes cash and cash equivalents and restricted cash, securities obtained and pledged as collateral, other assets, obligation to return securities obtained as collateral and other liabilities.
- (2) Represents the sum of borrowings under repurchase agreements 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 \$510.7 million and Senior Notes.
- (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, 2017, the amortized cost of our interest earning assets were as follows: Agency MBS - \$3.5 billion; Legacy Non-Agency MBS - \$2.4 billion; 3 year step-up securities - \$2.4 billion; Credit Risk Transfer securities - \$467.2 million; and Residential Whole Loans at carrying value - \$573.7 million. In addition, the yield for residential whole loans at carrying value was 5.65% net of 30 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 and Senior Notes. Agency cost of funds includes 60 basis points and Legacy Non-Agency cost of funds includes 58 basis points associated with swaps to hedge interest rate sensitivity on these assets.

At March 31, 2017, MFA's \$6.5 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)		
	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)
<i>(\$ in Millions)</i>									
< 2 years (5)	\$ 1,747	7	18.7%	\$ 2,054	4	16.6%	\$ 3,801	6	17.5%
2-5 years	268	33	19.6	—	—	—	268	33	19.6
> 5 years	117	66	6.6	—	—	—	117	66	6.6
ARM-MBS Total	\$ 2,132	14	18.2%	\$ 2,054	4	16.6%	\$ 4,186	9	17.3%
15-year fixed (6)	\$ 1,362		10.4%	\$ 5		26.1%	\$ 1,367		10.7%
30-year fixed (6)	—		—	930		17.4	930		17.4

40-year fixed (6)	—	—	26	5.8	26	5.8
Fixed-Rate Total	\$ 1,362	10.4%	\$ 961	17.4%	\$ 2,323	13.6%
MBS Total	\$ 3,494	15.1%	\$ 3,015	16.8%	\$ 6,509	16.0%

- (1) Excludes \$2.5 billion of 3 year step-up securities.
(2) Does not include principal payments receivable of \$1.1 million.
(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 Thursday, May 4, 2017, at 11:00 a.m. (Eastern Time) to discuss its first quarter 2017 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," "could," "would," "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, an increase of which could result in a reduction of the yield on MBS in our portfolio and could require us to reinvest the proceeds received by us as a result of such prepayments in MBS with lower coupons; 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 modification, foreclosure and liquidation; 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 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 successfully implement its strategy to grow 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 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 general economic conditions. 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 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, 2017 (Unaudited)	December 31, 2016
Assets:		
Mortgage-backed securities ("MBS") and credit risk transfer ("CRT") securities:		
Agency MBS, at fair value (\$3,361,376 and \$3,540,401 pledged as collateral, respectively)	\$ 3,494,614	\$ 3,738,497
Non-Agency MBS, at fair value (\$4,446,745 and \$4,978,199 pledged as collateral, respectively)	5,468,178	5,651,412
Non-Agency MBS transferred to consolidated variable interest entities ("VIEs"), at fair value (1)	—	174,404
CRT securities, at fair value (\$446,231 and \$357,488 pledged as collateral, respectively)	498,067	404,850
Securities obtained and pledged as collateral, at fair value	371,333	510,767
Residential whole loans, at carrying value (\$418,372 and \$427,880 pledged as collateral, respectively)	573,715	590,540
Residential whole loans, at fair value (\$745,044 and \$734,331 pledged as collateral, respectively)	775,152	814,682
Cash and cash equivalents	421,572	260,112
Restricted cash	10,980	58,463
Other assets	286,495	280,295
Total Assets	\$ 11,900,106	\$ 12,484,022
Liabilities:		
Repurchase agreements and other advances	\$ 8,137,102	\$ 8,687,268
Obligation to return securities obtained as collateral, at fair value	510,733	510,767
8% Senior Notes due 2042 ("Senior Notes")	96,743	96,733
Other liabilities	99,581	155,352
Total Liabilities	\$ 8,844,159	\$ 9,450,120
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; 372,819 and 371,854 shares issued

and outstanding, respectively

Additional paid-in capital, in excess of par

Accumulated deficit

Accumulated other comprehensive income

Total Stockholders' Equity

Total Liabilities and Stockholders' Equity

	3,728	3,719
	3,030,603	3,029,062
	(573,127)	(572,641)
	594,663	573,682
	<u>\$ 3,055,947</u>	<u>\$ 3,033,902</u>
	<u>\$ 11,900,106</u>	<u>\$ 12,484,022</u>

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts)	Three Months Ended March 31,	
	2017 (Unaudited)	2016 (Unaudited)
Interest Income:		
Agency MBS	\$ 17,894	\$ 23,997
Non-Agency MBS	80,163	80,305
Non-Agency MBS transferred to consolidated VIEs	2,080	5,847
CRT securities	6,376	2,692
Residential whole loans held at carrying value	8,690	4,436
Other interest-earning investments	1,699	—
Cash and cash equivalent investments	355	140
Interest Income	<u>\$ 117,257</u>	<u>\$ 117,417</u>
Interest Expense:		
Repurchase agreements and other advances	\$ 48,339	\$ 45,395
Senior Notes and other interest expense	2,010	2,205
Interest Expense	<u>\$ 50,349</u>	<u>\$ 47,600</u>
Net Interest Income	<u>\$ 66,908</u>	<u>\$ 69,817</u>
Other-Than-Temporary Impairments:		
Total other-than-temporary impairment losses	\$ (63)	\$ —
Portion of loss reclassified from other comprehensive income	(351)	—
Net Impairment Losses Recognized in Earnings	<u>\$ (414)</u>	<u>\$ —</u>
Other Income, net:		
Net gain on residential whole loans held at fair value	\$ 13,773	\$ 12,348
Net gain on sales of MBS and U.S. Treasury securities	9,708	9,745
Other, net	4,512	619
Other Income, net	<u>\$ 27,993</u>	<u>\$ 22,712</u>
Operating and Other Expense:		
Compensation and benefits	\$ 7,793	\$ 7,407
Other general and administrative expense	4,225	3,918
Loan servicing and other related operating expenses	4,409	3,134
Operating and Other Expense	<u>\$ 16,427</u>	<u>\$ 14,459</u>
Net Income	<u>\$ 78,060</u>	<u>\$ 78,070</u>
Less Preferred Stock Dividends	3,750	3,750
Net Income Available to Common Stock and Participating Securities	<u>\$ 74,310</u>	<u>\$ 74,320</u>
Earnings per Common Share - Basic and Diluted	<u>\$ 0.20</u>	<u>\$ 0.20</u>
Dividends Declared per Share of Common Stock	<u>\$ 0.20</u>	<u>\$ 0.20</u>

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