



Fourth Quarter 2016

Earnings Presentation

Forward-looking statements

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Executive summary

- In this historically low interest rate environment, we continue to generate attractive returns from residential credit mortgage assets.
- In the fourth quarter we generated EPS of \$0.18.
- Despite recent interest rate increases, book value per share was little changed at \$7.62 versus \$7.64 at the end of the third quarter.
- MFA continued to acquire credit sensitive residential mortgage assets, such as 3 year step-up securities and credit sensitive loans, in response to attractive investment opportunities.

Through volatile markets and both interest rate and credit cycles, MFA has generated strong long term returns to investors

<u>Time Period</u>	<u>Annualized MFA Shareholder Return</u> ⁽¹⁾
Since January 1, 2000	15.0%
10 Year	12.6%
5 Year	16.2%
1 Year	28.8%

⁽¹⁾ As of 12/31/16 assuming reinvestment of dividends.

2017 Investment Strategy

Be positioned for less predictable fiscal and monetary policy.

1. Focus on shorter term, less interest rate sensitive assets .
2. Blend mortgage credit exposure with interest rate exposure. Recently, investor expectations of improved economic performance due to the potential for tax cuts or increased infrastructure spending have negatively impacted interest rate sensitive assets while positively impacting credit sensitive assets.
3. Maintain staying power and the ability to invest in distressed, less liquid assets:
 - Permanent equity capital
 - Debt to equity ratio is low enough to accommodate potential declines in asset prices

Fourth quarter investment flows

Our assets run off due to amortization, paydowns or sale, allowing reinvestment opportunities in changing interest rate and credit environments.

\$ in Millions

	September 30, 2016	4th Quarter Runoff	4th Quarter Acquisitions	MTM and other changes	December 31, 2016	4th Quarter Change
Re-performing and Non-performing Loans	\$1,348	\$(40)	\$98	\$(1)	\$1,405	\$57
3 Year Step-up Securities ⁽¹⁾	\$2,523	\$(319)	\$455	\$(4)	\$2,655	\$132
Credit Risk Transfer Securities	\$348	\$—	\$54	\$3	\$405	\$57
Legacy Non-Agency MBS	\$3,386	\$(200)	\$—	\$(15)	\$3,171	\$(215)
Agency MBS	\$4,022	\$(248)	\$—	\$(36)	\$3,738	\$(284)
Totals	\$11,627	\$(807)	\$607	\$(53)	\$11,374	\$(253)

(1) 3 year step-up securities are securitized financial instruments that are backed primarily by re-performing and non-performing loans. The majority of these securities are structured such that the coupon increases up to 300 basis points (bps) at 36 months or sooner.

MFA's yields and spreads remain attractive

	Fourth Quarter 2016	Third Quarter 2016	Second Quarter 2016	First Quarter 2016
Yield on Interest Earning Assets	4.34%	4.23%	4.19%	4.23%
Net Interest Rate Spread	2.12%	2.13%	2.14%	2.18%
Debt to Equity Ratio	3.1x	3.1x	3.3x	3.4x

Fourth quarter 2016 yields and spreads by asset type

Asset	Yield/Return	Cost of Funds	Net Spread	Debt/Net Equity Ratio
Agency MBS	1.92%	(1.41)%	0.51%	7.7x
Legacy Non-Agency MBS	8.24%	(3.01)%	5.23%	2.3x
3 Year Step-up Securities	3.94%	(2.16)%	1.78%	3.6x
RPL Whole Loans	5.61% ⁽¹⁾	(3.02)%	2.59%	1.4x
NPL Whole Loans	⁽²⁾	(3.12)%	⁽²⁾	1.5x

(1) Net of 38 bps of servicing costs.

(2) These residential whole loans are held at fair value and produce GAAP income/loss based on changes in fair value in the current period, and therefore results will vary on a quarter-to-quarter basis. MFA expects to realize returns over time on these whole loan investments of 5-7%.

MFA's interest rate sensitivity remains low, as measured by estimated net duration

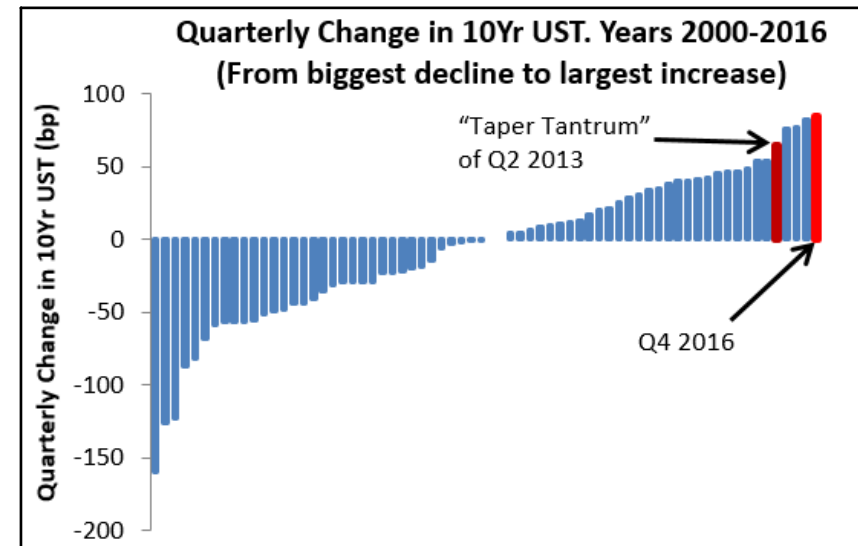
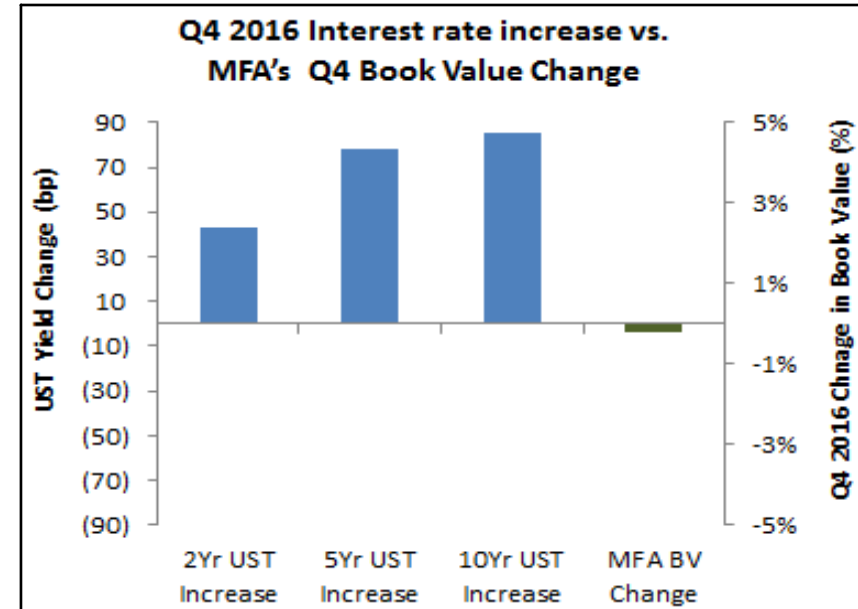
\$ in Millions

Assets	Market Value	Average Coupon	Duration
Non-Agency ARMs (12 months or less MTR)	\$2,538	3.38%	0.4
3 Year Step-up Securities	\$2,655	3.92%	0.4
Non-Agency Fixed Rate	\$1,038	5.82%	3.0
Residential Whole Loans	\$1,436	4.41%	2.7
Agency ARMs (12 months or less MTR)	\$1,520	3.07%	0.6
Agency ARMs (13-120 MTR)	\$776	2.93%	1.8
Agency 15-Year Fixed Rate	\$1,439	3.06%	3.2
Cash, Cash Equivalents and Other Assets	\$488		0.1
TOTAL ASSETS	\$11,892		1.35
Hedging Instruments	Notional Amount		Duration
Swaps (Less than 3 years)	\$1,100		-1.2
Swaps (3-10 years)	\$1,800		-3.6
TOTAL HEDGES	\$2,900		-2.7
Estimated Net Duration			0.71

MTR: Months to reset

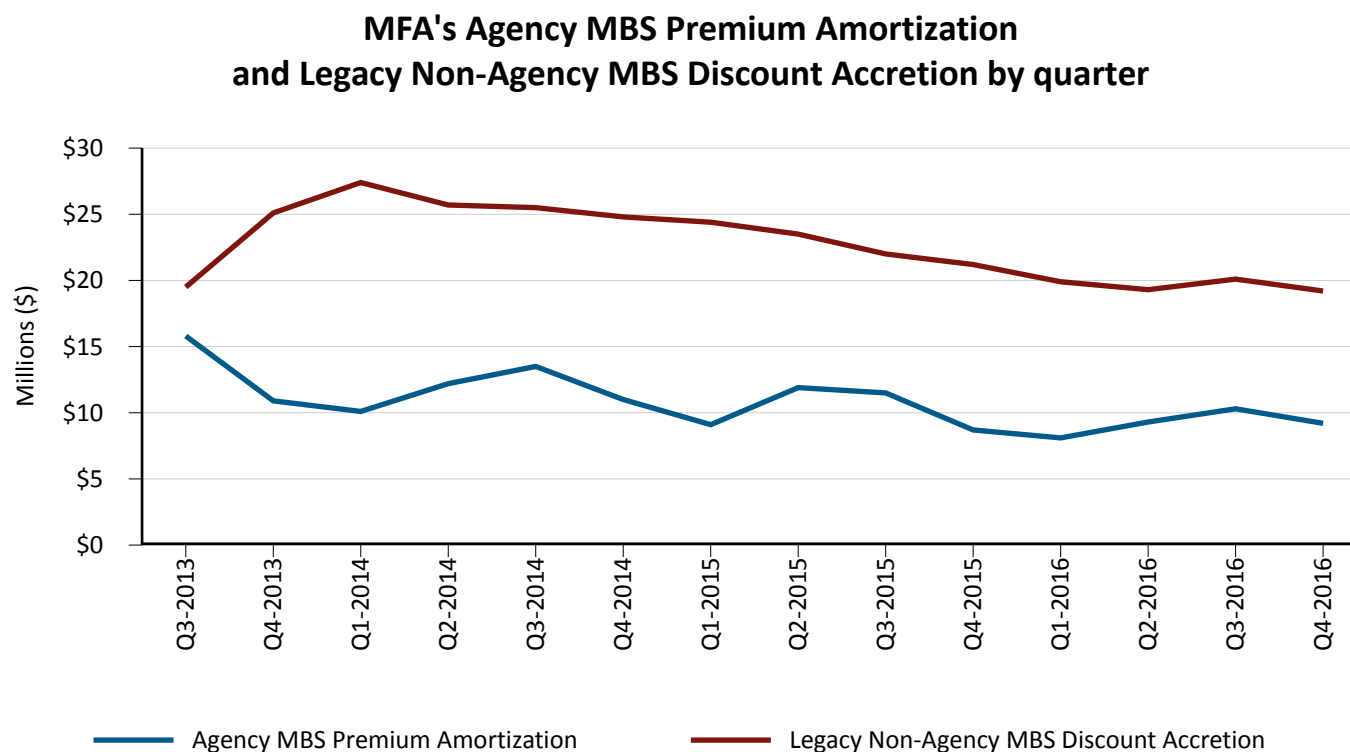
MFA's book value changed little as rates rose dramatically in Q4

- Over the last few years, MFA has consistently pursued a strategy of maintaining low sensitivity to interest rates. We have achieved this through:
 - Asset selection. Our assets have low duration and very little sensitivity to long-term interest rates.
 - Maintaining low net duration by utilizing the appropriate amount of interest rate swap hedges.
- On 9/30/2016, MFA's net duration was 0.55 and MFA's asset duration was 1.22.
- The 10-year UST increased by 85bp to 2.45% in the 4th quarter, the largest quarterly increase in the last sixteen years. The 2-year UST increased by 43bp to 1.20% resulting in a significant steepening of the yield curve.
- Due to a combination of low net duration and low sensitivity to long term interest rates, MFA's book value was preserved in a volatile quarter.



Low sensitivity to prepayment rates

Legacy Non-Agency MBS discount accretion has exceeded Agency MBS premium amortization since 2013.



Continued positive fundamentals for residential mortgage credit

- Fundamental **and** technical support for residential credit assets and home prices.
- According to the National Association of Realtors:
 - Total existing-home sales for calendar year 2016 were 5.45 million units, the highest level since 2006.
 - The median existing home price in December 2016 was up 4.0% versus December 2015.
 - Total housing inventory at the end of December 2016 was 1.65 million units, down 10.8% versus November 2016.
- CoreLogic reports that foreclosure inventory continues to decline.

Continued growth in credit sensitive loan portfolio

- Re-performing and Non-performing Loan Portfolio

\$ in Millions

December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
\$1,405	\$1,348	\$1,077	\$1,024	\$895

- At today's market prices, Re-performing and Non-performing residential mortgage loans generate higher yields than residential MBS.
- Residential whole loans are qualifying interests for purposes of REIT qualification and Investment Company Act exemption.
- Significant expected supply.

Credit sensitive residential whole loans: Growing asset class for MFA

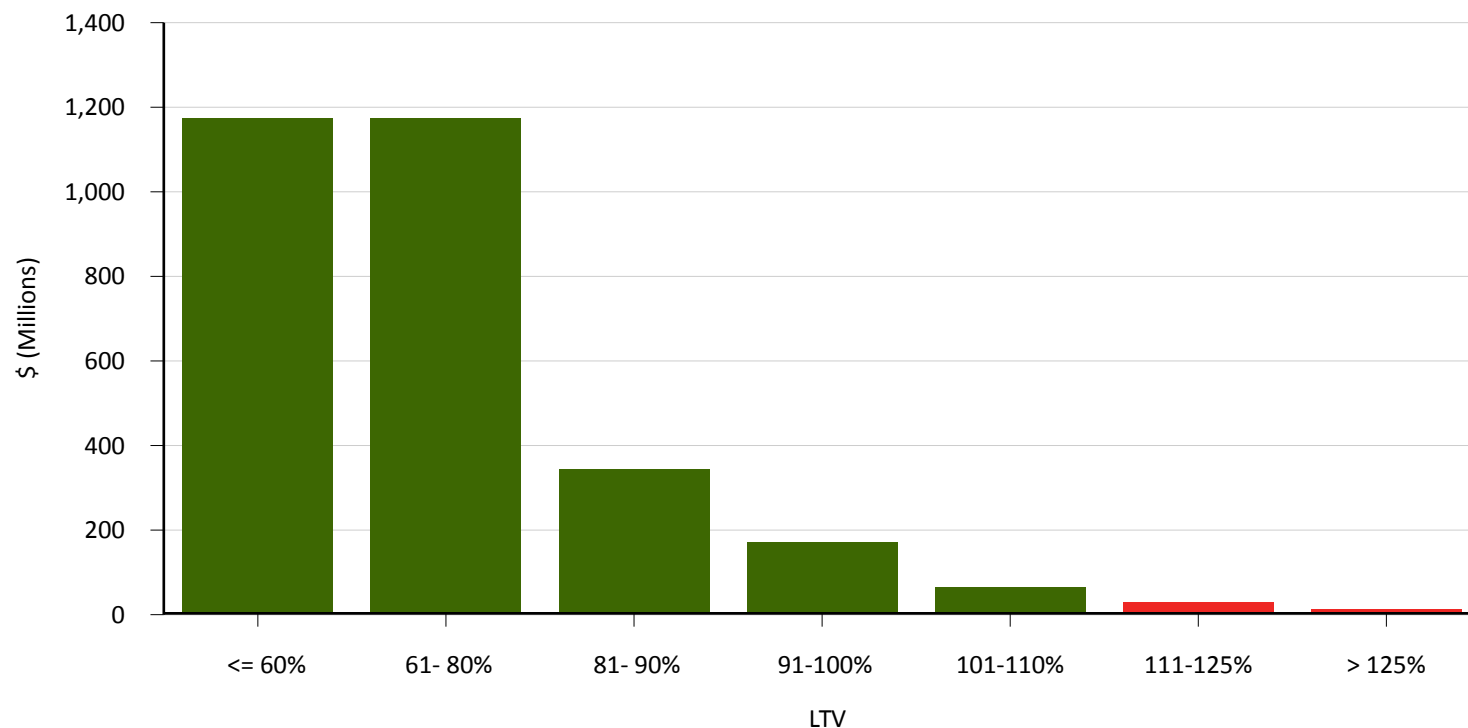
- Early results indicate returns to date are consistent with our expectation of 5-7%.
- Utilizes the same residential mortgage credit expertise we have employed in Legacy Non-Agency MBS since 2008.
- We believe that our oversight of servicing decisions (loan modifications, short sales, etc.) produces better NPV outcomes.
- Actively manages its loan portfolio through in-house asset management professionals and utilizes third-party special servicers.

Fourth quarter 3 Year Step-up Securities holdings

- Current market yields of mid to high 3%
- Well protected portfolio with current credit enhancement of 49%
- Very short assets with an average of 18 months remaining to step-up

As of December 31, 2016	Fair Value mm	Net Coupon	Months to Step-Up	Current Credit Support	Original Credit Support	3 Month Average Bond CPR
Underlying collateral						
Re-Performing loans	\$317	3.60%	13	41%	37%	23.4%
Non-Performing loans and other	\$2,338	3.97%	20	47%	45%	25.9%
Total 3 Year Step-up Securities	\$2,655	3.92%	19	46%	44%	25.6%

LTV breakdown of non-delinquent mortgage loans underlying MFA's Legacy Non-Agency MBS



- These loans are up to date on all required mortgage payments.
- Underlying loans are over ten years seasoned on average.

Summary

- We continue to identify and acquire attractive credit sensitive residential mortgage assets.
- We continued to acquire 3 Year Step-Up Securities and credit sensitive mortgage loans during the fourth quarter of 2016.
- Our credit sensitive assets continue to perform well.
- MFA is well-positioned for changes in prepayment rates, monetary policy and/or interest rates.

Additional Information

Despite recent interest rate increases, book value was largely unchanged for the quarter

Book value per common share as of 9/30/16	\$7.64
Net income available to common shareholders	0.18
Common dividend declared during the quarter	(0.20)
Net change attributable to Agency MBS	(0.07)
Net change attributable to Non-Agency MBS and CRT securities	(0.09)
Net change in value of swap hedges	0.16
Book value per common share as of 12/31/16	\$7.62

Fourth Quarter Non-Agency MBS impact on MFA book value

	Impact Per Share ⁽¹⁾
Impact of change in market prices	\$(0.02)
Realized gains from asset sales: Reallocation from OCI to Retained Earnings	(0.03)
Discount Accretion: Primarily income in excess of coupon on Non-Agency MBS purchased at a discount. This income increases amortized cost and lowers unrealized gains	(0.05)
Principal Paydowns	0.04
Realized Credit Losses	(0.03)
Total	\$(0.09)

(1) Does not include impact of swap hedges.