ERNST CHRISTINA M
Form 4
December 22, 2011

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
ERNST CHRISTINA M

(Last) (First) (Middle)

711 MAIN STREET, BOX 810

(Street)

JASPER, IN 47546

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
GERMAN AMERICAN BANCORP, INC. [GABC]

3. Date of Earliest Transaction (Month/Day/Year)
12/15/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	12/15/2011	12/20/2011	P		64	A	$ 18.71	18,107	I	By Ernst Revocable Trust
Common Stock								2,115	I	By Spouse (Ernst Revocable Trust)
Common Stock								446	I	By Spouse (Thomas Ernst IRA)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
ERNST CHRISTINA M 711 MAIN STREET BOX 810 JASPER, IN 47546				

Signatures

/s/ Mark A Schroeder, Attorney-in-Fact	12/22/2011
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. overflow:hidden;font-size:10pt;">
507,443

—

512,059

—

507,443

Total

$
11,106,194

$
512,059

$
11,410,397

$
507,443

(1) Cash pledged as collateral is reported as “Restricted cash” on the Company’s consolidated balance sheets.
(2) Includes $190.3 million and $570.5 million of Legacy Non-Agency MBS acquired in connection with resecuritization transactions from consolidated VIEs at June 30, 2016 and December 31, 2015, respectively, that are eliminated from the Company’s consolidated balance sheets.
(3) In addition, at June 30, 2016 and December 31, 2015, $697.2 million and $726.7 million of Legacy Non-Agency MBS, respectively, are pledged as collateral in connection with contemporaneous repurchase and reverse repurchase agreements entered into with a single counterparty.

33

Table of Contents

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

The following table presents detailed information about the Company's assets pledged as collateral pursuant to its borrowings under repurchase agreements and other advances, and derivative hedging instruments at June 30, 2016:

	June 30, 2016						
	Assets Pledged Under Repurchase Agreements and Other Advances			Assets Pledged Against Derivative Hedging Instruments			Total Fair Value of Assets Pledged and Accrued Interest
(In Thousands)	Fair Value	Amortized Cost	Accrued Interest on Pledged Assets	Fair Value/ Carrying Value	Amortized Cost	Accrued Interest on Pledged Assets	
Agency MBS (1)	$4,039,785	$3,990,571	$ 9,637	$ 35,661	$ 35,653	$ 72	$4,085,155
Legacy Non-Agency MBS (2)(3)	2,611,165	2,140,135	9,714	—	—	—	2,620,879
RPL/NPL MBS	2,690,238	2,694,113	1,443	—	—	—	2,691,681
U.S. Treasuries	512,059	512,059	—	—	—	—	512,059
CRT securities	255,675	250,535	129	—	—	—	255,804
Residential whole loans	818,527	793,019	2,017	—	—	—	820,544
Cash (4)	7,190	7,190	—	135,894	135,894	—	143,084
Total	$10,934,639	$10,387,622	$ 22,940	$ 171,555	$ 171,547	$ 72	$11,129,206

(1) Includes Agency MBS pledged under FHLB advances with an aggregate fair value of $585.1 million, aggregate amortized cost of $576.0 million and aggregate accrued interest of approximately $1.4 million at June 30, 2016.

(2) Includes $190.3 million of Legacy Non-Agency MBS acquired in connection with resecuritization transactions from consolidated VIEs at June 30, 2016, that are eliminated from the Company's consolidated balance sheets.

(3) In addition, at June 30, 2016, $697.2 million of Legacy Non-Agency MBS are pledged as collateral in connection with contemporaneous repurchase and reverse repurchase agreements entered into with a single counterparty.

(4) Cash pledged as collateral is reported as "Restricted cash" on the Company's consolidated balance sheets.

Table of Contents
MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

11. Offsetting Assets and Liabilities

The following tables present information about certain assets and liabilities that are subject to master netting arrangements (or similar agreements) and may potentially be offset on the Company's consolidated balance sheets at June 30, 2016 and December 31, 2015:

Offsetting of Financial Assets and Derivative Assets

(In Thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received	
June 30, 2016						
Swaps, at fair value	$ —	$ —	$ —	$ —	$ —	$ —
Total	$ —	$ —	$ —	$ —	$ —	$ —
December 31, 2015						
Swaps, at fair value	$ 1,127	$ —	$ 1,127	$ (1,127)	$ —	$ —
Total	$ 1,127	$ —	$ 1,127	$ (1,127)	$ —	$ —

Offsetting of Financial Liabilities and Derivative Liabilities

(In Thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments (1)	Cash Collateral Pledged (1)	
June 30, 2016						
Swaps, at fair value (2)	$ 131,971	$ —	$ 131,971	$ —	$ (131,971)	$ —
Repurchase agreements and other advances (3) (4)	9,038,537	—	9,038,537	(9,031,347)	(7,190)	—
Total	$ 9,170,508	$ —	$ 9,170,508	$ (9,031,347)	$ (139,161)	$ —
December 31, 2015						
Swaps, at fair value (2)	$ 70,526	$ —	$ 70,526	$ —	$ (70,526)	$ —
Repurchase agreements and other advances (3) (4)	9,388,902	—	9,388,902	(9,387,937)	(965)	—
Total	$ 9,459,428	$ —	$ 9,459,428	$ (9,387,937)	$ (71,491)	$ —

(1) Amounts disclosed in the Financial Instruments column of the table above represent collateral pledged that is available to be offset against liability balances associated with repurchase agreements and other advances, and derivative transactions. Amounts disclosed in the Cash Collateral Pledged column of the table above represent amounts pledged as collateral against derivative transactions and repurchase agreements, and exclude excess collateral

of $3.9 million and $47,000 at June 30, 2016 and December 31, 2015, respectively.
(2) The fair value of securities pledged against the Company's Swaps was $35.7 million and $38.6 million at June 30, 2016 and December 31, 2015, respectively.
(3) The fair value of financial instruments pledged against the Company's repurchase agreements and other advances was $10.9 billion and $11.3 billion at June 30, 2016 and December 31, 2015, respectively.
(4) Excludes $450,000 and $1.3 million of unamortized debt issuance costs at June 30, 2016 and December 31, 2015, respectively.

35

Table of Contents
MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

Nature of Setoff Rights

In the Company's consolidated balance sheets, all balances associated with the repurchase agreement and derivative transactions are presented on a gross basis.

Certain of the Company's repurchase agreement and derivative transactions are governed by underlying agreements that generally provide for a right of setoff in the event of default or in the event of a bankruptcy of either party to the transaction. For one repurchase agreement counterparty, the underlying agreements provide for an unconditional right of setoff.

12. Senior Notes

On April 11, 2012 the Company issued $100.0 million in aggregate principal amount of its Senior Notes in an underwritten public offering. The total net proceeds to the Company from the offering of the Senior Notes were approximately $96.6 million, after deducting offering expenses and the underwriting discount. The Senior Notes bear interest at a fixed rate of 8.00% per year, paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year and will mature on April 15, 2042. The Senior Notes have an effective interest rate, including the impact of amortization to interest expense of debt issuance costs, of 8.31%. The Company may redeem the Senior Notes, in whole or in part, at any time on or after April 15, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not excluding, the redemption date.

The Senior Notes are the Company's senior unsecured obligations and are subordinate to all of the Company's secured indebtedness, which includes the Company's repurchase agreements, obligation to return securities obtained as collateral, and other financing arrangements, to the extent of the value of the collateral securing such indebtedness.

13. Other Liabilities

The following table presents the components of the Company's Other liabilities at June 30, 2016 and December 31, 2015:

(In Thousands)	June 30, 2016	December 31, 2015
Accrued interest payable	$13,259	$ 16,949
Swaps, at fair value	131,971	70,526
Dividends and dividend equivalents payable	74,584	74,575
Securitized debt	—	21,868
Accrued expenses and other liabilities	13,205	19,610
Total Other Liabilities	$233,019	$ 203,528

14. Commitments and Contingencies

Lease Commitments

The Company pays monthly rent pursuant to two operating leases. The lease term for the Company's headquarters in New York, New York extends through May 31, 2020. The lease provides for aggregate cash payments ranging over time of approximately $2.5 million per year, paid on a monthly basis, exclusive of escalation charges. In addition, as part of this lease agreement, the Company has provided the landlord a $785,000 irrevocable standby letter of credit fully collateralized by cash. The letter of credit may be drawn upon by the landlord in the event that the Company defaults under certain terms of the lease. In addition, the Company has a lease through December 31, 2016 for its off-site back-up facility located in Rockville Centre, New York, which provides for, among other things, lease payments totaling $30,000, annually.

Table of Contents
MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

15. Stockholders' Equity

(a) Preferred Stock

Issuance of 7.50% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock")

On April 15, 2013, the Company completed the issuance of 8.0 million shares of its Series B Preferred Stock with a par value of $0.01 per share, and a liquidation preference of $25.00 per share plus accrued and unpaid dividends, in an underwritten public offering. The Company's Series B Preferred Stock is entitled to receive a dividend at a rate of 7.50% per year on the $25.00 liquidation preference before the Company's common stock is paid any dividends and is senior to the Company's common stock with respect to distributions upon liquidation, dissolution or winding up. Dividends on the Series B Preferred Stock are payable quarterly in arrears on or about March 31, June 30, September 30 and December 31 of each year. The Series B Preferred Stock is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not authorized or declared) exclusively at the Company's option commencing on April 15, 2018 (subject to the Company's right, under limited circumstances, to redeem the Series B Preferred Stock prior to that date in order to preserve its qualification as a REIT and upon certain specified change in control transactions in which the Company's common stock and the acquiring or surviving entity common securities would not be listed on the New York Stock Exchange (the "NYSE"), the NYSE MKT or NASDAQ, or any successor exchange.
The Series B Preferred Stock generally does not have any voting rights, subject to an exception in the event the Company fails to pay dividends on such stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series B Preferred Stock will be entitled to vote to elect two additional directors to the Company's Board of Directors (the "Board"), until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series B Preferred Stock cannot be made without the affirmative vote of holders of at least 66 2/3% of the outstanding shares of Series B Preferred Stock.
The following table presents cash dividends declared by the Company on its Series B Preferred Stock from January 1, 2016 through June 30, 2016:

Declaration Date	Record Date	Payment Date	Dividend Per Share
May 18, 2016	June 3, 2016	June 30, 2016	$ 0.46875
February 12, 2016	February 29, 2016	March 31, 2016	0.46875

(b) Dividends on Common Stock

The following table presents cash dividends declared by the Company on its common stock from January 1, 2016 through June 30, 2016:

Declaration Date (1)	Record Date	Payment Date	Dividend Per Share	
June 14, 2016	June 28, 2016	July 29, 2016	$ 0.20	(1)
March 11, 2016	March 28, 2016	April 29, 2016	0.20	

(1) At June 30, 2016, the Company had accrued dividends and dividend equivalents payable of $74.6 million related to the common stock dividend declared on June 14, 2016.

(c) Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan ("DRSPP")

On August 8, 2013, the Company filed a shelf registration statement on Form S-3 with the SEC under the Securities Act of 1933, as amended (the "1933 Act"), for the purpose of registering additional common stock for sale through its DRSPP. Pursuant to Rule 462(e) of the 1933 Act, this shelf registration statement became effective automatically upon filing with the SEC and, when combined with the unused portion of the Company's previous DRSPP shelf registration statements, registered an aggregate of 15 million shares of common stock. The Company's DRSPP is designed to provide existing stockholders and new investors with a convenient and economical way to purchase shares of common stock through the automatic reinvestment of dividends and/or optional cash investments. At June 30, 2016, 6.8 million shares of common stock remained available for issuance pursuant to the DRSPP shelf registration statement.

37

During the three and six months ended June 30, 2016, the Company issued 42,458 and 90,132 shares of common stock through the DRSPP, raising net proceeds of approximately $294,000 and $596,000, respectively. From the inception of the DRSPP in September 2003 through June 30, 2016, the Company issued 30,819,124 shares pursuant to the DRSPP, raising net proceeds of $258.9 million.

(d) Stock Repurchase Program

As previously disclosed, in August 2005, the Company's Board authorized a stock repurchase program (the "Repurchase Program") to repurchase up to 4.0 million shares of its outstanding common stock. The Board reaffirmed such authorization in May 2010. In December 2013, the Board increased the number of shares authorized under the Repurchase Program to an aggregate of 10.0 million. Such authorization does not have an expiration date and, at present, there is no intention to modify or otherwise rescind such authorization. Subject to applicable securities laws, repurchases of common stock under the Repurchase Program are made at times and in amounts as the Company deems appropriate, (including, in our discretion, through the use of one or more plans adopted under Rule 10b5-1 promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act")) using available cash resources. Shares of common stock repurchased by the Company under the Repurchase Program are cancelled and, until reissued by the Company, are deemed to be authorized but unissued shares of the Company's common stock. The Repurchase Program may be suspended or discontinued by the Company at any time and without prior notice. The Company did not repurchase any shares of its common stock during the six months ended June 30, 2016. At June 30, 2016, 6,616,355 shares remained authorized for repurchase under the Repurchase Program.

(e) Accumulated Other Comprehensive Income/(Loss)

The following table presents changes in the balances of each component of the Company's AOCI for the three and six months ended June 30, 2016:

	Three Months Ended June 30, 2016			Six Months Ended June 30, 2016		
(In Thousands)	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized Loss on Swaps	Total AOCI	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized Loss on Swaps	Total AOCI
Balance at beginning of period	$529,151	$(118,741)	$410,410	$585,250	$(69,399)	$515,851
OCI before reclassifications	105,234	(13,230)	92,004	60,098	(62,572)	(2,474)
Amounts reclassified from AOCI (1)	(8,688)	—	(8,688)	(19,651)	—	(19,651)
Net OCI during the period (2)	96,546	(13,230)	83,316	40,447	(62,572)	(22,125)
Balance at end of period	$625,697	$(131,971)	$493,726	$625,697	$(131,971)	$493,726

(1) See separate table below for details about these reclassifications.
(2) For further information regarding changes in OCI, see the Company's consolidated statements of comprehensive income/(loss).

Explanation of Responses:

Table of Contents
MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

The following table presents changes in the balances of each component of the Company's AOCI for the three and six months ended June 30, 2015:

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
(In Thousands)	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized (Loss)/Gain on Swaps	Total AOCI	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized Loss on Swaps	Total AOCI
Balance at beginning of period	$850,257	$(91,429)	$758,828	$813,515	$(59,062)	$754,453
OCI before reclassifications	(82,945)	26,858	(56,087)	(43,767)	(5,509)	(49,276)
Amounts reclassified from AOCI (1)	(8,161)	—	(8,161)	(15,134)	—	(15,134)
Cumulative effect adjustment on adoption of revised accounting standard for repurchase agreement financing	—	—	—	4,537	—	4,537
Net OCI during the period (2)	(91,106)	26,858	(64,248)	(54,364)	(5,509)	(59,873)
Balance at end of period	$759,151	$(64,571)	$694,580	$759,151	$(64,571)	$694,580

(1) See separate table below for details about these reclassifications.
(2) For further information regarding changes in OCI, see the Company's consolidated statements of comprehensive income/(loss).

The following table presents information about the significant amounts reclassified out of the Company's AOCI for the three and six months ended June 30, 2016:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016	
Details about AOCI Components	Amounts Reclassified from AOCI		Affected Line Item in the Statement Where Net Income Is Presented
(In Thousands)			
AFS Securities:			
Realized gain on sale of securities	$(8,688)	$(19,651)	Gain on sales of MBS
Total AFS Securities	$(8,688)	$(19,651)	
Total reclassifications for period	$(8,688)	$(19,651)	

The following table presents information about the significant amounts reclassified out of the Company's AOCI for the three and six months ended June 30, 2015:

	Three Months Ended June 30,	Six Months Ended June 30,

Details about AOCI Components	2015 Amounts Reclassified from AOCI	2015	Affected Line Item in the Statement Where Net Income Is Presented
(In Thousands)			
AFS Securities:			
Realized gain on sale of securities	$(7,863)	$(14,429)	Gain on sales of MBS
OTTI recognized in earnings	(298)	(705)	Net impairment losses recognized in earnings
Total AFS Securities	$(8,161)	$(15,134)	
Total reclassifications for period	$(8,161)	$(15,134)	

At June 30, 2016 and December 31, 2015, the Company had unrealized losses recorded in AOCI of $893,000 and $1.3 million, respectively, on securities for which OTTI had been recognized in earnings in prior periods.

39

Table of Contents
MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

16. EPS Calculation

The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands, Except Per Share Amounts)	2016	2015	2016	2015
Numerator:				
Net income	$78,950	$78,071	$157,020	$160,244
Dividends declared on preferred stock	(3,750)	(3,750)	(7,500)	(7,500)
Dividends, dividend equivalents and undistributed earnings allocated to participating securities	(421)	(391)	(814)	(786)
Net income to common stockholders - basic and diluted	$74,779	$73,930	$148,706	$151,958
Denominator:				
Weighted average common shares for basic and diluted earnings per share (1)	373,023	370,164	372,946	371,992
Basic and diluted earnings per share	$0.20	$0.20	$0.40	$0.41

(1) At June 30, 2016, the Company had an aggregate of 2.1 million equity instruments outstanding that were not included in the calculation of diluted EPS for the three and six months ended June 30, 2016, as their inclusion would have been anti-dilutive. These equity instruments were comprised of approximately 80,429 shares of restricted common stock with a weighted average grant date fair value of $7.32 and approximately 2.1 million RSUs with a weighted average grant date fair value of $6.84. These equity instruments may have a dilutive impact on future EPS.

17. Equity Compensation, Employment Agreements and Other Benefit Plans

(a) Equity Compensation Plan

In accordance with the terms of the Company’s Equity Compensation Plan (the “Equity Plan”), which was adopted by the Company’s stockholders on May 21, 2015 (and which amended and restated the Company’s 2010 Equity Compensation Plan), directors, officers and employees of the Company and any of its subsidiaries and other persons expected to provide significant services for the Company and any of its subsidiaries are eligible to receive grants of stock options (“Options”), restricted stock, RSUs, dividend equivalent rights and other stock-based awards under the Equity Plan.

Subject to certain exceptions, stock-based awards relating to a maximum of 12.0 million shares of common stock may be granted under the Equity Plan; forfeitures and/or awards that expire unexercised do not count towards this limit. At June 30, 2016, approximately 8.6 million shares of common stock remained available for grant in connection with stock-based awards under the Equity Plan. A participant may generally not receive stock-based awards in excess of 1,500,000 shares of common stock in any one year and no award may be granted to any person who, assuming

exercise of all Options and payment of all awards held by such person, would own or be deemed to own more than 9.8% of the outstanding shares of the Company’s common stock. Unless previously terminated by the Board, awards may be granted under the Equity Plan until May 20, 2025.

Dividend Equivalents

A dividend equivalent is a right to receive a distribution equal to the dividend distributions that would be paid on a share of the Company’s common stock. Dividend equivalents may be granted as a separate instrument or may be a right associated with the grant of another award (e.g., an RSU) under the Equity Plan, and they are paid in cash or other consideration at such times and in accordance with such rules, as the Compensation Committee of the Board (the “Compensation Committee”) shall determine in its discretion. Payments made on the Company’s outstanding dividend equivalent rights that have been granted as a separate instrument are charged to Stockholders’ Equity when common stock dividends are declared to the extent that such equivalents are expected to vest. The Company made payments in respect of such separate instruments of approximately $2,000 and $5,000 during the three months ended June 30, 2016 and 2015, respectively, and approximately $3,000 and $10,000 during the six months ended June 30, 2016 and 2015, respectively. At June 30, 2016, there were 8,215 dividend equivalent rights outstanding, which had been

Table of Contents

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

awarded separately from, but in connection with, grants of RSUs made in prior years. A 0% forfeiture rate was assumed with respect to such dividend equivalent rights outstanding at June 30, 2016.

Options

The Company did not grant any stock options during the six months ended June 30, 2016 and 2015. At June 30, 2016, the Company had no stock options outstanding.

Restricted Stock

The Company did not award any shares of restricted common stock during the six months ended June 30, 2016 and awarded 12,611 shares of restricted common stock during the six months ended June 30, 2015. At June 30, 2016 and December 31, 2015, the Company had unrecognized compensation expense of approximately $502,000 and $807,000, respectively, related to the unvested shares of restricted common stock. The Company had accrued dividends payable of approximately $136,000 and $193,000 on unvested shares of restricted stock at June 30, 2016 and December 31, 2015, respectively. The unrecognized compensation expense at June 30, 2016 is expected to be recognized over a weighted average period of 1.1 years.

Restricted Stock Units

Under the terms of the Equity Plan, RSUs are instruments that provide the holder with the right to receive, subject to the satisfaction of conditions set by the Compensation Committee at the time of grant, a payment of a specified value, which may be a share of the Company's common stock, the fair market value of a share of the Company's common stock, or such fair market value to the extent in excess of an established base value, on the applicable settlement date. Although the Equity Plan permits the Company to issue RSUs that can settle in cash, all of the Company's outstanding RSUs as of June 30, 2016 are designated to be settled in shares of the Company's common stock. The Company granted 113,195 and 728,195 RSUs during the three and six months ended June 30, 2016, respectively, and granted 81,355 and 671,335 RSUs during the three and six months ended June 30, 2015, respectively. During the six months ended June 30, 2016 an aggregate of 10,000 RSUs were forfeited. There were 7,500 RSUs forfeited during the six months ended June 30, 2015. All RSUs outstanding at June 30, 2016 may be entitled to receive dividend equivalent payments depending on the terms and conditions of the award either in cash at the time dividends are paid by the Company, or for certain performance-based RSU awards, as a grant of stock at the time such awards are settled. At June 30, 2016 and December 31, 2015, the Company had unrecognized compensation expense of $5.6 million and $4.0 million, respectively, related to RSUs. The unrecognized compensation expense at June 30, 2016 is expected to be recognized over a weighted average period of 1.9 years. A 0% forfeiture rate was assumed with respect to unvested RSUs at June 30, 2016.

Expense Recognized for Equity-Based Compensation Instruments

The following table presents the Company's expenses related to its equity-based compensation instruments for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2016	2015	2016	2015

Restricted shares of common stock	$152	$348	$304	$594
RSUs	1,734	1,288	2,694	1,934
Dividend equivalent rights	22	21	44	41
Total	$1,908	$1,657	$3,042	$2,569

(b) Employment Agreements

At June 30, 2016, the Company had employment agreements with four of its officers, with varying terms that provide for, among other things, base salary, bonus and change-in-control payments upon the occurrence of certain triggering events.

Table of Contents
MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

(c) Deferred Compensation Plans

The Company administers deferred compensation plans for its senior officers and non-employee directors (collectively, the "Deferred Plans"), pursuant to which participants may elect to defer up to 100% of certain cash compensation. The Deferred Plans are designed to align participants' interests with those of the Company's stockholders.

Amounts deferred under the Deferred Plans are considered to be converted into "stock units" of the Company. Stock units do not represent stock of the Company, but rather are a liability of the Company that changes in value as would equivalent shares of the Company's common stock. Deferred compensation liabilities are settled in cash at the termination of the deferral period, based on the value of the stock units at that time. The Deferred Plans are non-qualified plans under the Employee Retirement Income Security Act of 1974 and, as such, are not funded. Prior to the time that the deferred accounts are settled, participants are unsecured creditors of the Company.

The Company's liability for stock units in the Deferred Plans is based on the market price of the Company's common stock at the measurement date. The following table presents the Company's expenses related to its Deferred Plans for its non-employee directors and senior officers for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2016	2015	2016	2015
Non-employee directors	$72	$(8)	$121	$(16)
Total	$72	$(8)	$121	$(16)

The following table presents the aggregate amount of income deferred by participants of the Deferred Plans through June 30, 2016 and December 31, 2015 that had not been distributed and the Company's associated liability for such deferrals at June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
(In Thousands)	Undistributed Income Deferred (1)	Liability Under Deferred Plans	Undistributed Income Deferred (1)	Liability Under Deferred Plans
Non-employee directors	$781	$ 868	$601	$ 614
Total	$781	$ 868	$601	$ 614

(1) Represents the cumulative amounts that were deferred by participants through June 30, 2016 and December 31, 2015, which had not been distributed through such respective date.

(d) Savings Plan

The Company sponsors a tax-qualified employee savings plan (the "Savings Plan") in accordance with Section 401(k) of the Code. Subject to certain restrictions, all of the Company's employees are eligible to make tax-deferred contributions to the Savings Plan subject to limitations under applicable law. Participant's accounts are self-directed and the Company bears the costs of administering the Savings Plan. The Company matches 100% of the first 3% of eligible compensation deferred by employees and 50% of the next 2%, subject to a maximum as provided by the Code. The Company has elected to operate the Savings Plan under the applicable safe harbor provisions of the Code, whereby among other things, the Company must make contributions for all participating employees and all matches contributed by the Company immediately vest 100%. For the three months ended June 30, 2016 and 2015, the Company recognized expenses for matching contributions of $86,000 and $75,000, respectively, and $173,000 and $150,000 for the six months ended June 30, 2016 and 2015, respectively.

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18. Fair Value of Financial Instruments

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1 — Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following describes the valuation methodologies used for the Company's financial instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities Obtained and Pledged as Collateral/Obligation to Return Securities Obtained as Collateral

The fair value of U.S. Treasury securities obtained as collateral and the associated obligation to return securities obtained as collateral are based upon prices obtained from a third-party pricing service, which are indicative of market activity. Securities obtained as collateral are classified as Level 1 in the fair value hierarchy.

MBS and CRT securities

The Company determines the fair value of its Agency MBS, based upon prices obtained from third-party pricing services, which are indicative of market activity and repurchase agreement counterparties.

For Agency MBS, the valuation methodology of the Company's third-party pricing services incorporate commonly used market pricing methods, trading activity observed in the marketplace and other data inputs. The methodology also considers the underlying characteristics of each security, which are also observable inputs, including: collateral vintage, coupon, maturity date, loan age, reset date, collateral type, periodic and life cap, geography, and prepayment speeds. Management analyzes pricing data received from third-party pricing services and compares it to other indications of fair value including data received from repurchase agreement counterparties and its own observations of trading activity observed in the marketplace.

In determining the fair value of its Non-Agency MBS and CRT securities, management considers a number of observable market data points, including prices obtained from pricing services and brokers as well as dialogue with market participants. In valuing Non-Agency MBS, the Company understands that pricing services use observable inputs that include, in addition to trading activity observed in the marketplace, loan delinquency data, credit enhancement levels and vintage, which are taken into account to assign pricing factors such as spread and prepayment assumptions. For tranches of Legacy Non-Agency MBS that are cross-collateralized, performance of all collateral groups involved in the tranche are considered. The Company collects and considers current market intelligence on all major markets, including benchmark security evaluations and bid-lists from various sources, when available.

The Company’s MBS and CRT securities are valued using various market data points as described above, which management considers directly or indirectly observable parameters. Accordingly, the Company’s MBS and CRT securities are classified as Level 2 in the fair value hierarchy.

Residential Whole Loans, at Fair Value

The Company determines the fair value of its residential whole loans held at fair value after considering portfolio valuations obtained from a third-party who specializes in providing valuations of residential mortgage loans and trading activity observed in the market place. The Company’s residential whole loans held at fair value are classified as Level 3 in the fair value hierarchy.

Table of Contents
MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

Swaps

The Company determines the fair value of non-centrally cleared Swaps considering valuations obtained from a third-party pricing service. For Swaps that are cleared by a central clearing house valuations provided by the clearing house are used. All valuations obtained are tested with internally developed models that apply readily observable market parameters. The Company considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement, from the perspective of both the Company and its counterparties. All of the Company's Swaps are subject either to bilateral collateral arrangements, or for cleared Swaps, to the clearing house's margin requirements. Consequently, no credit valuation adjustment was made in determining the fair value of such instruments. Swaps are classified as Level 2 in the fair value hierarchy.

The following tables present the Company's financial instruments carried at fair value on a recurring basis as of June 30, 2016 and December 31, 2015, on the consolidated balance sheets by the valuation hierarchy, as previously described:

Fair Value at June 30, 2016

(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Agency MBS	$—	$4,307,882	$—	$4,307,882
Non-Agency MBS, including MBS transferred to consolidated VIEs	—	6,104,880	—	6,104,880
CRT securities	—	272,569	—	272,569
Securities obtained and pledged as collateral	512,059	—	—	512,059
Residential whole loans, at fair value	—	—	684,582	684,582
Total assets carried at fair value	$512,059	$10,685,331	$684,582	$11,881,972
Liabilities:				
Swaps	$—	$131,971	$—	$131,971
Obligation to return securities obtained as collateral	512,059	—	—	512,059
Total liabilities carried at fair value	$512,059	$131,971	$—	$644,030

Fair Value at December 31, 2015

(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Agency MBS	$—	$4,752,244	$—	$4,752,244
Non-Agency MBS, including MBS transferred to consolidated VIEs	—	6,420,817	—	6,420,817
CRT securities	—	183,582	—	183,582
Securities obtained and pledged as collateral	507,443	—	—	507,443
Residential whole loans, at fair value	—	—	623,276	623,276
Swaps	—	1,127	—	1,127
Total assets carried at fair value	$507,443	$11,357,770	$623,276	$12,488,489
Liabilities:				
Swaps	$—	$70,526	$—	$70,526
Obligation to return securities obtained as collateral	507,443	—	—	507,443
Total liabilities carried at fair value	$507,443	$70,526	$—	$577,969

44

Table of Contents
MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

The following table presents additional information for the three and six months ended June 30, 2016 and 2015 about the Company’s Residential whole loans, at fair value, which are classified as Level 3 and measured at fair value on a recurring basis.

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis

	Residential Whole Loans, at Fair Value			
	Three Months Ended June 30,		Six Months Ended June 30,	
(In Thousands)	2016	2015	2016	2015
Balance at beginning of period	$647,360	$144,507	$623,276	$143,472
Purchases and capitalized advances	66,169	47,700	119,759	53,729
Changes in fair value recorded in Net gain on residential whole loans held at fair value	8,390	1,165	14,616	1,510
Collection of principal, net of liquidation gains/losses	(16,187)	(6,394)	(30,789)	(8,570)
Transfer to REO	(21,149)	(3,117)	(42,279)	(6,280)
Balance at end of period	$684,583	$183,861	$684,583	$183,861

The Company did not transfer any assets or liabilities from one level to another during the three and six months ended June 30, 2016 and 2015.

45

Table of Contents
MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

The following table presents a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's residential whole loans held at fair value for which it has utilized Level 3 inputs to determine fair value as of June 30, 2016 and December 31, 2015:

Fair Value Methodology for Level 3 Financial Instruments

	June 30, 2016					
(Dollars in Thousands)	Fair Value (1)	Valuation Technique	Unobservable Input	Weighted Average (2)		Range
Residential whole loans, at fair value	$176,829	Discounted cash flow	Discount rate	6.6	%	5.0-7.6%
			Prepayment rate	7.2	%	0.3-12.1%
			Default rate	2.8	%	0.0-9.4%
			Loss severity	13.8	%	0.0-79.1%
	$440,227	Liquidation model	Discount rate	7.7	%	6.8-42.0%
			Annual change in home prices	1.0	%	(4.4)-6.4%
			Liquidation timeline (in years)	1.5		0.1-4.4
			Current value of underlying properties	$ 654		$14-$4,900
Total	$617,056					

	December 31, 2015					
(Dollars in Thousands)	Fair Value (1)	Valuation Technique	Unobservable Input	Weighted Average (2)		Range
Residential whole loans, at fair value	$113,166	Discounted cash flow	Discount rate	7.0	%	6.0-8.7%
			Prepayment rate	6.6	%	0.3-11.1%
			Default rate	3.1	%	0.0-9.1%
			Loss severity	17.0	%	10.0-79.4%
	$392,557	Liquidation model	Discount rate	6.9	%	6.8-10.0%
			Annual change in home prices	1.3	%	(5.5)-6.1%
			Liquidation timeline (in years)	1.6		0.7-4.4
			Current value of underlying properties	$ 626		$14-$3,500
Total	$505,723					

(1) Excludes approximately $67.5 million and $117.6 million of loans for which management considers the purchase price continues to reflect the fair value of such loans at June 30, 2016 and December 31, 2015, respectively.
(2) Amounts are weighted based on the fair value of the underlying loan.

46

Table of Contents

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016

The following table presents the difference between the fair value and the aggregate unpaid principal balance of the Company's residential whole loans for which the fair value option was elected, at June 30, 2016 and December 31, 2015:

	June 30, 2016			December 31, 2015		
(In Thousands)	Fair Value	Unpaid Principal Balance	Difference	Fair Value	Unpaid Principal Balance	Difference
Residential whole loans, at fair value						
Total loans	$684,582	$844,846	$(160,264)	$623,276	$786,330	$(163,054)
Loans 90 days or more past due	$520,590	$653,151	$(132,561)	$493,640	$637,459	$(143,819)

Changes to the valuation methodologies used with respect to the Company's financial instruments are reviewed by management to ensure any such changes result in appropriate exit price valuations. The Company will refine its valuation methodologies as markets and products develop and pricing methodologies evolve. The methods described above may produce fair value estimates that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with those used by market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company uses inputs that are current as of the measurement date, which may include periods of market dislocation, during which price transparency may be reduced. The Company reviews the classification of its financial instruments within the fair value hierarchy on a quarterly basis, and management may conclude that its financial instruments should be reclassified to a different level in the future.

The following table presents the carrying values and estimated fair values of the Company's financial instruments at June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
(In Thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Agency MBS	$4,307,882	$4,307,882	$4,752,244	$4,752,244
Non-Agency MBS, including MBS transferred to consolidated VIEs	6,104,880	6,104,880	6,420,817	6,420,817
CRT securities	272,569	272,569	183,582	183,582
Securities obtained and pledged as collateral	512,059	512,059	507,443	507,443
Residential whole loans, at carrying value	392,172	408,035	271,845	289,696
Residential whole loans, at fair value	684,582	684,582	623,276	623,276
Cash and cash equivalents	182,765	182,765	165,007	165,007
Restricted cash	143,084	143,084	71,538	71,538
Swaps	—	—	1,127	1,127
Financial Liabilities (1):				
Repurchase agreements	8,493,087	8,493,080	7,887,622	7,828,115
FHLB advances	545,000	545,000	1,500,000	1,500,000
Securitized debt	—	—	21,868	22,057
Obligation to return securities obtained as collateral	512,059	512,059	507,443	507,443

Senior Notes	96,715	102,511	96,697	101,391
Swaps	131,971	131,971	70,526	70,526

(1) Carrying value of Senior Notes, Securitized debt and certain Repurchase agreements is net of associated debt issuance costs.

In addition to the methodologies used to determine the fair value of the Company's financial assets and liabilities reported at fair value on a recurring basis, as previously described, the following methods and assumptions were used by the Company in arriving at the fair value of the Company's other financial instruments presented in the above table:

47

Residential Whole Loans at Carrying Value: The Company determines the fair value of its residential whole loans held at carrying value after considering portfolio valuations obtained from a third-party who specializes in providing valuations of residential mortgage loans and trading activity observed in the market place. The Company's residential whole loans held at carrying value are classified as Level 3 in the fair value hierarchy.

Cash and Cash Equivalents and Restricted Cash: Cash and cash equivalents and restricted cash are comprised of cash held in overnight money market investments and demand deposit accounts. At June 30, 2016 and December 31, 2015, the Company's money market funds were invested in securities issued by the U.S. Government, or its agencies, instrumentalities, and sponsored entities, and repurchase agreements involving the securities described above. Given the overnight term and assessed credit risk, the Company's investments in money market funds are determined to have a fair value equal to their carrying value.

Repurchase Agreements: The fair value of repurchase agreements reflects the present value of the contractual cash flows discounted at market interest rates at the valuation date for repurchase agreements with a term equivalent to the remaining term to interest rate repricing, which may be at maturity. Such interest rates are estimated based on LIBOR rates observed in the market. The Company's repurchase agreements are classified as Level 2 in the fair value hierarchy.

FHLB Advances: FHLB advances reflect collateralized borrowings at variable market interest rates that reset on a monthly basis. Accordingly, the carrying amount of FHLB advances are considered to approximate fair value. The Company's FHLB advances are classified as Level 2 in the fair value hierarchy.

Securitized Debt: In determining the fair value of securitized debt, management considers a number of observable market data points, including prices obtained from pricing services and brokers as well as dialogue with market participants. Accordingly, the Company's securitized debt is classified as Level 2 in the fair value hierarchy.

Senior Notes: The fair value of the Senior Notes is determined using the end of day market price quoted on the NYSE at the reporting date. The Company's Senior Notes are classified as Level 1 in the fair value hierarchy.

19. Use of Special Purpose Entities and Variable Interest Entities

A Special Purpose Entity ("SPE") is an entity designed to fulfill a specific limited need of the company that organized it. SPEs are often used to facilitate transactions that involve securitizing financial assets or resecuritizing previously securitized financial assets. The objective of such transactions may include obtaining non-recourse financing, obtaining liquidity or refinancing the underlying securitized financial assets on improved terms. Securitization involves transferring assets to a SPE to convert all or a portion of those assets into cash before they would have been realized in the normal course of business, through the SPE's issuance of debt or equity instruments. Investors in an SPE usually have recourse only to the assets in the SPE and, depending on the overall structure of the transaction, may benefit from various forms of credit enhancement such as over-collateralization in the form of excess assets in the SPE, priority with respect to receipt of cash flows relative to holders of other debt or equity instruments issued by the SPE, or a line of credit or other form of liquidity agreement that is designed with the objective of ensuring that investors receive principal and/or interest cash flow on the investment in accordance with the terms of their investment agreement.

Resecuritization transactions

The Company has in prior years entered into several resecuritization transactions that resulted in the Company consolidating as VIEs the SPEs that were created to facilitate the transactions and to which the underlying assets in connection with the resecuritizations were transferred. See Note 2(r) for a discussion of the accounting policies applied to the consolidation of VIEs and transfers of financial assets in connection with resecuritization transactions.

The Company has engaged in resecuritization transactions primarily for the purpose of obtaining non-recourse financing on a portion of its Non-Agency MBS portfolio, as well as refinancing a portion of its Non-Agency MBS portfolio on improved terms. Notwithstanding the Company’s participation in these transactions, the risks facing the Company are largely unchanged as the Company remains economically exposed to the first loss position on the underlying MBS transferred to the VIEs.

The activities that can be performed by an entity created to facilitate a resecuritization transaction are generally specified in the entity’s formation documents. Those documents do not permit the entity, any beneficial interest holder in the entity, or any

other party associated with the entity to cause the entity to sell or replace the assets held by the entity, or limit such ability to when specific events of default occur.

The Company concluded that the entities created to facilitate these resecuritization transactions are VIEs. The Company then completed an analysis of whether each VIE created to facilitate the resecuritization transaction should be consolidated by the Company, based on consideration of its involvement in each VIE, including the design and purpose of the SPE, and whether its involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of each VIE. In determining whether the Company would be considered the primary beneficiary, the following factors were assessed:

- Whether the Company has both the power to direct the activities that most significantly impact the economic performance of the VIE; and
- Whether the Company has a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE.

Based on its evaluation of the factors discussed above, including its involvement in the purpose and design of the entity, the Company has determined that it is required to consolidate each remaining VIE created to facilitate these resecuritization transactions.

As of June 30, 2016 and December 31, 2015, the aggregate fair value of the Non-Agency MBS that were resecuritized as described above was $193.7 million and $598.3 million, respectively. These assets are included in the Company's consolidated balance sheets and disclosed as "Non-Agency MBS transferred to consolidated VIEs, at fair value." During the three months ended June 30, 2016 the principal balance for the WFMLT Series 2012-RR1 A1 Bond was paid-off, thereby reducing the aggregate outstanding balance of credit support provided for the senior Non-Agency MBS sold to third-party investors in resecuritization transactions ("Senior Bonds") issued by consolidated VIEs to zero. As of December 31, 2015, the aggregate outstanding balance of Senior Bonds issued by consolidated VIEs was $22.1 million. These Senior Bonds are included in Other liabilities on the Company's consolidated balance sheets and disclosed as "Securitized debt." The holders of the Senior Bonds have no recourse to the general credit of the Company, but the Company does have the obligation, under certain circumstances to repurchase assets from the VIE upon the breach of certain representations and warranties in relation to the Non-Agency MBS sold to the VIE. In the absence of such a breach, the Company has no obligation to provide any other explicit or implicit support to any VIE.

During the first quarter of 2016, the Company entered into an agreement to amend the Trust Agreement of the DMSI 2010-RS2 Trust (the "Trust") in order to facilitate the unwind of this resecuritization transaction. Concurrent with the amendment to the Trust Agreement, the Company entered into a transaction to exchange the remaining beneficial interests issued by the Trust and held by the Company for the underlying securities that had previously been transferred to and held by the Trust. The Company expects, following completion of any final Trust distributions, the remaining beneficial interests will be cancelled and the Trust terminated.

For financial reporting purposes, the exchange transaction did not result in any gain or loss to the Company as this resecuritization was accounted for as a financing transaction. However, for purposes of determining REIT taxable income, this resecuritization transaction was originally accounted for as a sale of the underlying securities to the Trust and acquisition of beneficial interests issued by the Trust. Because the fair value of the underlying securities received exceeded the Company's tax basis in the remaining beneficial interests at the exchange date, the unwind of this resecuritization structure resulted in the Company recognizing taxable income currently estimated to be approximately

$70.9 million or $0.19 per common share. In addition, the underlying securities originally transferred as part of this resecuritization are reported as Non-Agency MBS in the Company's consolidated balance sheets at June 30, 2016 and interest income from the underlying securities from the date of exchange transaction through June 30, 2016 is reported as Interest income from Non-Agency MBS in the Company's consolidated statements of operations.

Prior to the completion of the Company's first resecuritization transaction in October 2010, the Company had not transferred assets to VIEs or QSPEs and, other than acquiring MBS issued by such entities, it had no other involvement with VIEs or QSPEs.

Residential Whole Loans

Included on the Company's consolidated balance sheets as of June 30, 2016 and December 31, 2015 is a total of $1.1 billion and $895.1 million of residential whole loans, of which approximately $392.2 million and $271.8 million are reported at carrying value and $684.6 million and $623.3 million are reported at fair value, respectively. The inclusion of these assets arises from the Company's 100% equity interest in certain trusts established to acquire the loans. Based on its evaluation of its 100% interest in

49

these trusts and other factors, the Company has determined that the trusts are required to be consolidated for financial reporting purposes. During the three and six months ended June 30, 2016, the Company recognized interest income from residential whole loans reported at carrying value of approximately $5.8 million and $10.2 million, respectively. During the three and six months ended June 30, 2015, the Company recognized interest income from residential whole loans reported at carrying value of approximately $4.2 million and $7.8 million, respectively. These amounts are included in Interest Income on the Company’s consolidated statements of operations. In addition, the Company recognized net gains on residential whole loans held at fair value during the three and six months ended June 30, 2016 of approximately $14.5 million and $26.4 million, respectively. During the three and six months ended June 30, 2015, the Company recognized net gains on residential whole loans held at fair value of $3.2 million and $5.3 million, respectively. These amounts are included in Other Income, net on the Company’s consolidated statements of operations. (See Note 4)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In this Quarterly Report on Form 10-Q, we refer to MFA Financial, Inc. and its subsidiaries as "the Company," "MFA," "we," "us," or "our," unless we specifically state otherwise or the context otherwise indicates.

The following discussion should be read in conjunction with our financial statements and accompanying notes included in Item 1 of this Quarterly Report on Form 10-Q as well as our Annual Report on Form 10-K for the year ended December 31, 2015.

Forward Looking Statements

When used in this Quarterly Report on Form 10-Q, in future filings with the SEC or in press releases 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 expre intended to identify "forward-looking statements" within the meaning of Section 27A of the 1933 Act and Section 21E of the 1934 Act and, as such, may involve known and unknown risks, uncertainties and assumptions.

These forward-looking statements include information about possible or assumed future results with respect to our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects, among others, may be forward-looking: changes in interest rates and the market value of our MBS; changes in the prepayment rates on the mortgage loans securing our MBS, an increase of which could result in a reduction of the yield on MBS in our portfolio and an increase of which could require us to reinvest the proceeds received by us as a result of such prepayments in MBS with lower coupons; credit risks underlying our assets, including changes in the default rates and management's assumptions regarding default rates on the mortgage loans securing our Non-Agency MBS and relating to our residential whole loan portfolio; our ability to borrow to finance our 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 our business; our 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 us to accrete the market discount on Non-Agency MBS and the extent of prepayments, realized losses and changes in the composition of our 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 our Board and will depend on, among other things, our taxable income, our financial results and overall financial condition and liquidity, maintenance of our REIT qualification and such other factors as the Board deems relevant; our ability to maintain our qualification as a REIT for federal income tax purposes; our ability to maintain our 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 engaged in the business of acquiring mortgages and mortgage-related interests; our ability to successfully implement our strategy to grow our residential whole loan portfolio; expected returns on our investments in non-performing residential whole loans (or 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 we file with the SEC, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements are based on beliefs, assumptions and expectations of our 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 us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Business/General

We are a REIT primarily engaged in the business of investing, on a leveraged basis, in residential mortgage assets, including Agency MBS, Non-Agency MBS, residential whole loans and CRT securities. Our principal business objective is to deliver shareholder value through the generation of distributable income and through asset performance linked to residential mortgage credit fundamentals. We selectively invest in residential mortgage assets with a focus on credit analysis, projected prepayment rates, interest rate sensitivity and expected return.

Table of Contents

At June 30, 2016, we had total assets of approximately $12.8 billion, of which $10.4 billion, or 81.2%, represented our MBS portfolio. At such date, our MBS portfolio was comprised of $4.3 billion of Agency MBS and $6.1 billion of Non-Agency MBS which includes $3.5 billion of Legacy Non-Agency MBS and $2.6 billion of RPL/NPL MBS. In addition, at June 30, 2016, we had approximately $1.1 billion in residential whole loans acquired through our consolidated trusts, which represented approximately 8.4% of our total assets. Our remaining investment-related assets were primarily comprised of collateral obtained in connection with reverse repurchase agreements, cash and cash equivalents (including restricted cash), CRT securities, REO, MBS-related receivables and derivative instruments.

The results of our business operations are affected by a number of factors, many of which are beyond our control, and primarily depend on, among other things, the level of our net interest income, the market value of our assets, which is driven by numerous factors, including the supply and demand for residential mortgage assets in the marketplace, the terms and availability of adequate financing, general economic and real estate conditions (both on a national and local level), the impact of government actions in the real estate and mortgage sector, and the credit performance of our credit sensitive residential mortgage assets. Our net interest income varies primarily as a result of changes in interest rates, the slope of the yield curve (i.e., the differential between long-term and short-term interest rates), borrowing costs (i.e., our interest expense) and prepayment speeds on our MBS, the behavior of which involves various risks and uncertainties. Interest rates and conditional prepayment rates (or CPRs) (which measure the amount of unscheduled principal prepayment on a bond as a percentage of the bond balance), vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty.

With respect to our business operations, increases in interest rates, in general, may over time cause: (i) the interest expense associated with our borrowings to increase; (ii) the value of our MBS portfolio and, correspondingly, our stockholders’ equity to decline; (iii) coupons on our ARM-MBS to reset, on a delayed basis, to higher interest rates; (iv) prepayments on our MBS to decline, thereby slowing the amortization of our MBS purchase premiums and the accretion of our purchase discounts; and (v) the value of our derivative hedging instruments and, correspondingly, our stockholders’ equity to increase. Conversely, decreases in interest rates, in general, may over time cause: (i) the interest expense associated with our borrowings to decrease; (ii) the value of our MBS portfolio and, correspondingly, our stockholders’ equity to increase; (iii) coupons on our ARM-MBS to reset, on a delayed basis, to lower interest rates; (iv) prepayments on our MBS to increase, thereby accelerating the amortization of our MBS purchase premiums and the accretion of our purchase discounts; and (v) the value of our derivative hedging instruments and, correspondingly, our stockholders’ equity to decrease. In addition, our borrowing costs and credit lines are further affected by the type of collateral we pledge and general conditions in the credit market.

We are exposed to credit risk in our Non-Agency MBS and residential whole loans, generally meaning that we are subject to credit losses in these portfolios that correspond to the risk of delinquency, default and foreclosure on the underlying real estate collateral. We believe the discounted purchase prices paid on certain of these investments mitigates our risk of loss in the event that, as we expect on most such investments, we receive less than 100% of the par value of these securities or loans. Our investment process for credit sensitive assets focuses primarily on quantifying and pricing credit risk.

As of June 30, 2016, approximately $6.8 billion, or 65.3%, of our MBS portfolio was in its contractual fixed-rate period or were fixed-rate MBS and approximately $3.6 billion, or 34.7%, was in its contractual adjustable-rate period, or were floating rate MBS with interest rates that reset monthly. Our ARM-MBS in their contractual adjustable-rate period primarily include MBS collateralized by Hybrids for which the initial fixed-rate period has elapsed, such that the interest rate will typically adjust on an annual or semiannual basis.

Premiums arise when we acquire MBS at a price in excess of the principal balance of the mortgages securing such MBS (i.e., par value). Conversely, discounts arise when we acquire MBS at a price below the principal balance of the

mortgages securing such MBS or acquire residential whole loans at a price below the principal balance of the mortgage. Premiums paid on our MBS are amortized against interest income and accretable purchase discounts on these investments are accreted to interest income. Purchase premiums on our MBS, which are primarily carried on our Agency MBS, are amortized against interest income over the life of each security using the effective yield method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the IRR/interest income earned on such assets.

CPR levels are impacted by, among other things, conditions in the housing market, new regulations, government and private sector initiatives, interest rates, availability of credit to home borrowers, underwriting standards and the economy in general. In particular, CPR reflects the conditional repayment rate (or CRR), which measures voluntary prepayments of mortgages collateralizing a particular MBS, and the conditional default rate (or CDR), which measures involuntary prepayments resulting from defaults. CPRs on Agency MBS and Legacy Non-Agency MBS may differ significantly. For the three months ended June 30, 2016, our Agency MBS portfolio experienced a weighted average CPR of 13.9%, and our Legacy Non-Agency MBS portfolio

52

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experienced a weighted average CPR of 16.1%. Over the last consecutive eight quarters, ending with June 30, 2016, the monthly fair value weighted average CPR on our Agency and Legacy Non-Agency MBS portfolios ranged from a high of 16.7% experienced during the month ended July 31, 2015 to a low of 10.4%, experienced during the month ended March 31, 2015, with an average CPR over such quarters of 13.5%.

Our method of accounting for Non-Agency MBS purchased at significant discounts to par value, requires us to make assumptions with respect to each security. These assumptions include, but are not limited to, future interest rates, voluntary prepayment rates, default rates, mortgage modifications and loss severities. As part of our Non-Agency MBS surveillance process, we track and compare each security's actual performance over time to the performance expected at the time of purchase or, if we have modified our original purchase assumptions, to our revised performance expectations. To the extent that actual performance or our expectation of future performance of our Non-Agency MBS deviates materially from our expected performance parameters, we may revise our performance expectations, such that the amount of purchase discount designated as credit discount may be increased or decreased over time. Nevertheless, credit losses greater than those anticipated or in excess of the recorded purchase discount could occur, which could materially adversely impact our operating results.

It is our business strategy to hold our MBS as long-term investments. On at least a quarterly basis, we assess our ability and intent to continue to hold each security and, as part of this process, we monitor our securities for other-than-temporary impairment. A change in our ability and/or intent to continue to hold any of our securities that are in an unrealized loss position, or a deterioration in the underlying characteristics of these securities, could result in our recognizing future impairment charges or a loss upon the sale of any such security. At June 30, 2016, we had net unrealized gains of $53.6 million on our Agency MBS, comprised of gross unrealized gains of $65.2 million and gross unrealized losses of $11.6 million and net unrealized gains on our Non-Agency MBS of $569.9 million, comprised of gross unrealized gains of $583.5 million and gross unrealized losses of $13.6 million. At June 30, 2016, we did not intend to sell any of our MBS that were in an unrealized loss position, and we believe it is more likely than not that we will not be required to sell those securities before recovery of their amortized cost basis, which may be at their maturity.

We rely primarily on borrowings under repurchase agreements to finance our MBS, residential whole loans and CRT securities. Our residential mortgage investments have longer-term contractual maturities than our borrowings under repurchase agreements. Even though the majority of our MBS have interest rates that adjust over time based on short-term changes in corresponding interest rate indices (typically following an initial fixed-rate period for our Hybrids), the interest rates we pay on our borrowings will typically change at a faster pace than the interest rates we earn on our MBS. In order to reduce this interest rate risk exposure, we may enter into derivative instruments, which at June 30, 2016 were comprised of Swaps.

Our Swap derivative instruments are designated as cash-flow hedges against a portion of our current and forecasted LIBOR-based repurchase agreements. Our Swaps do not extend the maturities of our repurchase agreements; they do, however, lock in a fixed rate of interest over their term for the notional amount of the Swap corresponding to the hedged item. During the six months ended June 30, 2016, we did not enter into any new Swaps and had Swaps with an aggregate notional amount of $50.0 million and a weighted average fixed-pay rate of 2.13% amortize and/or expire. At June 30, 2016, we had Swaps designated in hedging relationships with an aggregate notional amount of $3.0 billion with a weighted average fixed-pay rate of 1.82% and a weighted average variable interest rate received of 0.45%.

Recent Market Conditions and Our Strategy

During the second quarter of 2016, we continued to invest in residential mortgage assets, including both MBS and, through consolidated trusts, residential whole loans. At June 30, 2016, our MBS portfolio was approximately $10.4 billion compared to $11.2 billion at December 31, 2015. At June 30, 2016 our total investment in residential whole

loans was $1.1 billion compared to $895.1 million at December 31, 2015.

At June 30, 2016, $6.1 billion, or 58.6% of our MBS portfolio, was invested in Non-Agency MBS. During the three months ended June 30, 2016, the fair value of our Non-Agency MBS holdings increased by $4.1 million. The primary components of the change during the quarter in these Non-Agency MBS include $498.2 million of purchases (at a weighted average purchase price of 99.0%), an increase reflecting Non-Agency MBS price changes of $99.5 million, partially offset by $573.8 million of principal repayments and other principal reductions (including approximately $61.8 million of cash proceeds (a one-time payment) received by us during the three months ended June 30, 2016 in connection with the settlement of litigation related to certain Countrywide Residential Mortgage Backed Securitization Trusts) and the sale of Non-Agency MBS with a fair value of $19.8 million.

At June 30, 2016, $4.3 billion, or 41.4% of our MBS portfolio, was invested in Agency MBS. During the three months ended June 30, 2016, the fair value of our Agency MBS decreased by $237.0 million. This was due to $239.3 million of principal repayments, and $9.3 million of premium amortization partially offset by a $11.6 million increase in net unrealized gains.

53

Table of Contents

In this low interest rate environment, we continue to invest in more credit sensitive, less interest sensitive residential mortgage assets. During the three months ended June 30, 2016, we purchased, through consolidated trusts, approximately $88.9 million of residential whole loans with an unpaid principal balance of approximately $110.9 million. At June 30, 2016, our total recorded investment in residential whole loans was $1.1 billion. Of this amount, $392.2 million is presented as residential whole loans at carrying value and $684.6 million as residential whole loans at fair value in our consolidated balance sheets. For the three months ended June 30, 2016, we recognized approximately $5.8 million of income on residential whole loans held at carrying value in Interest Income on our consolidated statements of operations, representing an effective yield of 6.17% (excluding servicing costs). In addition, we recorded a net gain on residential whole loans held at fair value of $14.5 million in Other Income, net in our consolidated statements of operations for the three months ended June 30, 2016.

We currently expect to continue to seek more credit sensitive, less interest rate sensitive residential mortgage assets during 2016, particularly residential whole loans and Non-Agency MBS (including RPL/NPL MBS). In order to achieve our current investment strategy, interest rate sensitive Agency MBS may continue to run off without reinvestment in this asset class.

In addition to our investments in Agency MBS, Non-Agency MBS and residential whole loans, we invest in CRT securities, which are debt obligations issued by Fannie Mae and Freddie Mac. At June 30, 2016 our investments in these securities totaled $272.6 million.

Our book value per common share was $7.41 as of June 30, 2016. Book value per common share increased from $7.17 as of March 31, 2016 due primarily to the impact of fair value changes of Legacy Non-Agency MBS and Agency MBS, partially offset by the impact of realized gains on sales and discount accretion income on Legacy Non-Agency MBS that was recognized and declared as dividends during the quarter and unrealized losses on our Swaps.

At the end of the second quarter of 2016, the average coupon on mortgages underlying our Agency MBS was slightly higher compared to the end of the second quarter of 2015, due to upward resets on Hybrid and ARM-MBS within the portfolio. As a result, the coupon yield on our Agency MBS portfolio increased to 2.80% for the three months ended June 30, 2016, from 2.77% for the three months ended June 30, 2015. The net Agency MBS yield increased to 1.96% for the three months ended June 30, 2016, from 1.89% for the three months ended June 30, 2015. The net yield for our Legacy Non-Agency MBS portfolio was 7.72% for the three months ended June 30, 2016 compared to 7.59% for the three months ended June 30, 2015. The increase in the net yield on our Legacy Non-Agency MBS portfolio reflects the impact of the cash proceeds (a one-time payment) received during the second quarter in connection with the settlement of litigation related to certain Countrywide Residential Mortgage Backed Securitization Trusts and the improved performance of loans underlying the Legacy Non-Agency MBS portfolio, resulting in credit reserve releases in the current and prior year. The net yield for our RPL/NPL MBS portfolio was 3.83% for the three months ended June 30, 2016 compared to 3.66% for the three months ended June 30, 2015. The increase in the net yield on our RPL/NPL MBS portfolio is primarily due to the addition of higher yielding RPL/NPL MBS since the second quarter of 2015. Despite heavy supply, RPL/NPL MBS spreads have tightened since the first quarter of 2016, as more buyers find these short-duration and well credit-protected assets attractive.

We believe that our $724.2 million Credit Reserve and OTTI appropriately factors in remaining uncertainties regarding underlying mortgage performance and the potential impact on future cash flows for our existing Legacy Non-Agency MBS portfolio. Home price appreciation and underlying mortgage loan amortization have decreased the LTV for many of the mortgages underlying our Legacy Non-Agency portfolio. Home price appreciation during the past few years has generally been driven by a combination of limited housing supply, low mortgage rates and demographic-driven U.S. household formation. We estimate that the average LTV of mortgage loans underlying our Legacy Non-Agency MBS has declined from approximately 105% as of January 2012 to approximately 68% as of

June 30, 2016. In addition, we estimate that the percentage of non-delinquent loans underlying our Legacy Non-Agency MBS that are underwater (with LTVs greater than 100%), has declined from approximately 52% as of January 2012 to 5% at June 30, 2016. Lower LTVs lessen the likelihood of defaults and simultaneously decrease loss severities. Further, during 2015 and the first six months of 2016, we have also observed faster voluntary prepayment (i.e., prepayment of loans in full with no loss) speeds than originally projected. The yields on our Legacy Non-Agency MBS that were purchased at a discount are positively impacted if prepayment rates on these securities exceed our prepayment assumptions. Based on these current conditions, we have reduced estimated future losses within our Legacy Non-Agency portfolio. As a result, during the three months ended June 30, 2016, $22.4 million was transferred from Credit Reserve to accretable discount. This increase in accretable discount is expected to increase the interest income realized over the remaining life of our Legacy Non-Agency MBS. The remaining average contractual life of such assets is approximately 20 years, but based on scheduled loan amortization and prepayments (both voluntary and involuntary), loan balances will decline substantially over time. Consequently, we believe that the majority of the impact on interest income from the reduction in Credit Reserve will occur over the next ten years.

At June 30, 2016, we have access to various sources of liquidity which we estimate to be in excess of $522.7 million. This amount includes (i) $182.8 million of cash and cash equivalents; (ii) $220.2 million in estimated financing available from unpledged

Table of Contents

Agency MBS and from other Agency MBS collateral that is currently pledged in excess of contractual requirements; and (iii) $119.7 million in estimated financing available from unpledged Non-Agency MBS. Consequently, we believe that we are positioned to continue to take advantage of investment opportunities within the residential mortgage marketplace. During the remainder of 2016, we intend to continue to selectively acquire MBS and residential whole loans. In addition, while the majority of our Legacy Non-Agency MBS will not return their full face value due to loan defaults, we believe that they will deliver attractive loss adjusted yields due to our discounted average amortized cost of 73% of face value at June 30, 2016.

Repurchase agreement funding for both Agency MBS and Non-Agency MBS continues to be available to us from multiple counterparties. Typically, repurchase agreement funding involving Non-Agency MBS is available from fewer counterparties, at terms requiring higher collateralization and higher interest rates, than for repurchase agreement funding involving Agency MBS. In July 2015, our wholly-owned subsidiary, MFA Insurance, became a member of the Federal Home Loan Bank of Des Moines, further diversifying our potential sources of funding for residential mortgage investments. However, in January 2016, the Federal Housing Finance Agency (or FHFA) released its final rule amending its regulation on FHLB membership, which, amongst other things, provided termination rules for current captive insurance members. As a result of such regulation, MFA Insurance will not be permitted new advances or renewal of existing advances and will be required to terminate its FHLB membership within one year of the rule's effective date of February 19, 2016. During the second quarter of 2016 we reduced our FHLB advances by approximately $648 million to approximately $545 million at June 30, 2016, with a further reduction of approximately $25 million subsequent to the end of the quarter. At June 30, 2016, our debt consisted of borrowings under repurchase agreements with 28 counterparties, FHLB advances, Senior Notes outstanding and obligation to return securities obtained as collateral, resulting in a debt-to-equity multiple of 3.3 times. (See table on page 71 under Results of Operations that presents our quarterly leverage multiples since June 30, 2015.)

Information About Our Assets

The tables below present certain information about our asset allocation at June 30, 2016:

ASSET ALLOCATION

	Agency MBS	Legacy Non-Agency MBS	RPL/NPL MBS (1)	MBS Portfolio	Residential Whole Loans, at Carrying Value (2)	Residential Whole Loans, at Fair Value	Other, net (3)	Total
(Dollars in Thousands)								
Fair Value/Carrying Value	$4,307,882	$3,465,874	$2,639,006	$10,412,762	$392,172	$684,582	$724,925	$12,214,4
Less Payable for Unsettled Purchases	—	—	—	—	—	—	—	—
Less Repurchase Agreements	(3,276,823)	(2,371,726)	(2,069,976)	(7,718,525)	(171,808)	(411,781)	(190,973)	(8,493,08
Less FHLB advances	(545,000)	—	—	(545,000)	—	—	—	(545,000
Less Senior Notes	—	—	—	—	—	—	(96,715)	(96,715
Equity Allocated	$486,059	$1,094,148	$569,030	$2,149,237	$220,364	$272,801	$437,237	$3,079,63
Less Swaps at Market Value	—	—	—	—	—	—	(131,971)	(131,971
Net Equity Allocated	$486,059	$1,094,148	$569,030	$2,149,237	$220,364	$272,801	$305,266	$2,947,66

Debt/Net Equity Ratio (4)	7.86	x	2.17	x	3.64	x	0.78	x	1.51	x	3.27

(1) Represents private-label MBS issued in 2013, 2014, 2015 and 2016 in which the underlying collateral consists of re-performing/non-performing loans that were originated in prior years. Included with the balance of Non-Agency MBS reported on our consolidated balance sheets.

(2) The carrying value of such loans reflects the purchase price, accretion of income, cash received and provision for loan losses since acquisition. At June 30, 2016, the fair value of such loans is estimated to be approximately $408.0 million.

(3) Includes cash and cash equivalents and restricted cash, securities obtained and pledged as collateral, CRT securities, other assets, obligation to return securities obtained as collateral of $512.1 million and other liabilities.

(4) Represents the sum of borrowings under repurchase agreements, FHLB advances and payable for unsettled purchases 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 $512.1 million and Senior Notes.

Table of Contents

Agency MBS

The following table presents certain information regarding the composition of our Agency MBS portfolio as of June 30, 2016 and December 31, 2015:

June 30, 2016

(Dollars in Thousands)	Current Face	Weighted Average Purchase Price	Weighted Average Market Price	Fair Value (1)	Weighted Average Loan Age (Months) (2)	Weighted Average Coupon (2)	3 Month Average CPR
15-Year Fixed Rate:							
Low Loan Balance (3)	$1,303,990	104.3 %	105.0 %	$1,368,930	49	2.98 %	10.3 %
HARP (4)	131,576	104.7	104.9	138,073	49	2.97	13.5
Other (Post June 2009) (5)	124,727	103.9	107.7	134,270	69	4.14	16.2
Other (Pre June 2009) (6)	701	104.9	108.1	758	85	4.50	1.1
Total 15-Year Fixed Rate	$1,560,994	104.3 %	105.2 %	$1,642,031	51	3.07 %	11.1 %
Hybrid:							
Other (Post June 2009) (5)	$1,605,207	104.4 %	104.9 %	$1,683,803	61	2.94 %	18.5 %
Other (Pre June 2009) (6)	825,942	101.7	105.4	870,679	114	2.77	10.7
Total Hybrid	$2,431,149	103.5 %	105.1 %	$2,554,482	79	2.89 %	15.8 %
CMO/Other	$106,854	102.5 %	103.6 %	$110,700	181	2.64 %	10.1 %
Total Portfolio	$4,098,997	103.8 %	105.1 %	$4,307,213	71	2.95 %	13.9 %

December 31, 2015

(Dollars in Thousands)	Current Face	Weighted Average Purchase Price	Weighted Average Market Price	Fair Value (1)	Weighted Average Loan Age (Months) (2)	Weighted Average Coupon (2)	3 Month Average CPR
15-Year Fixed Rate:							
Low Loan Balance (3)	$1,430,258	104.3 %	103.1 %	$1,475,086	44	2.99 %	8.4 %
HARP (4)	146,821	104.7	103.1	151,387	43	2.98	7.9
Other (Post June 2009) (5)	144,596	103.9	106.1	153,477	63	4.14	16.1
Other (Pre June 2009) (6)	745	104.9	106.8	796	79	4.50	28.9
Total 15-Year Fixed Rate	$1,722,420	104.3 %	103.4 %	$1,780,746	45	3.09 %	9.1 %
Hybrid:							
Other (Post June 2009) (5)	$1,811,007	104.4 %	104.8 %	$1,897,030	56	2.89 %	15.6 %
Other (Pre June 2009) (6)	899,185	101.7	105.7	950,666	109	2.60	9.3
Total Hybrid	$2,710,192	103.5 %	105.1 %	$2,847,696	73	2.80 %	13.5 %
CMO/Other	$117,791	102.5 %	104.2 %	$122,771	175	2.52 %	12.2 %
Total Portfolio	$4,550,403	103.8 %	104.4 %	$4,751,213	65	2.90 %	11.8 %

(1) Does not include principal payments receivable of $669,000 and $1.0 million at June 30, 2016 and December 31, 2015, respectively.
(2) Weighted average is based on MBS current face at June 30, 2016 and December 31, 2015, respectively.
(3) Low loan balance represents MBS collateralized by mortgages with an original loan balance of less than or equal to $175,000.

(4) Home Affordable Refinance Program (or HARP) MBS are backed by refinanced loans with LTVs greater than or equal to 80% at origination.
(5) MBS issued in June 2009 or later. Majority of underlying loans are ineligible to refinance through the HARP program.
(6) MBS issued before June 2009.

56

Table of Contents

The following table presents certain information regarding our 15-year fixed-rate Agency MBS as of June 30, 2016 and December 31, 2015:

June 30, 2016

Coupon	Current Face	Weighted Average Purchase Price	Weighted Average Market Price	Fair Value (1)	Weighted Average Loan Age (Months) (2)	Weighted Average Loan Rate	Low Loan Balance and/or HARP (3)	3 Month Average CPR
(Dollars in Thousands)								
15-Year Fixed Rate:								
2.5%	$771,476	104.0 %	103.8 %	$800,795	42	3.04 %	100 %	8.2 %
3.0%	321,933	105.9	105.2	338,513	48	3.49	100	11.9
3.5%	8,228	103.5	106.4	8,753	68	4.18	100	14.6
4.0%	393,530	103.5	107.4	422,480	67	4.40	80	15.5
4.5%	65,827	105.2	108.6	71,490	71	4.88	33	13.7
Total 15-Year Fixed Rate	$1,560,994	104.3 %	105.2 %	$1,642,031	51	3.56 %	92 %	11.1 %

December 31, 2015

Coupon	Current Face	Weighted Average Purchase Price	Weighted Average Market Price	Fair Value (1)	Weighted Average Loan Age (Months) (2)	Weighted Average Loan Rate	Low Loan Balance and/or HARP (3)	3 Month Average CPR
(Dollars in Thousands)								
15-Year Fixed Rate:								
2.5%	$834,689	104.0 %	101.5 %	$846,925	36	3.04 %	100 %	6.9 %
3.0%	355,439	105.9	103.4	367,471	42	3.49	100	8.0
3.5%	9,238	103.5	104.9	9,691	62	4.18	100	12.6
4.0%	448,064	103.5	106.4	476,793	61	4.40	79	13.1
4.5%	74,990	105.2	106.5	79,866	65	4.88	33	13.3
Total 15-Year Fixed Rate	$1,722,420	104.3 %	103.4 %	$1,780,746	45	3.57 %	92 %	9.1 %

(1) Does not include principal payments receivable of $669,000 and $1.0 million at June 30, 2016 and December 31, 2015, respectively.
(2) Weighted average is based on MBS current face at June 30, 2016 and December 31, 2015, respectively.
(3) Low Loan Balance represents MBS collateralized by mortgages with an original loan balance less than or equal to $175,000. HARP MBS are backed by refinanced loans with LTVs greater than or equal to 80% at origination.

Table of Contents

The following table presents certain information regarding our Hybrid Agency MBS as of June 30, 2016 and December 31, 2015:

June 30, 2016

(Dollars in Thousands)	Current Face	Weighted Average Purchase Price	Weighted Average Market Price	Fair Value (1)	Weighted Average Coupon (2)	Weighted Average Loan Age (Months) (2)	Weighted Average Months to Reset (3)	Interest Only (4)	3 Month Average CPR
Hybrid Post June 2009:									
Agency 5/1	$644,498	104.3 %	105.3 %	$678,771	2.78 %	70	8	24 %	16.7 %
Agency 7/1	736,219	104.5	104.5	769,238	3.03	57	26	22	19.8
Agency 10/1	224,490	104.7	105.0	235,794	3.14	53	67	63	19.1
Total Hybrids Post June 2009	$1,605,207	104.4 %	104.9 %	$1,683,803	2.94 %	61	24	29 %	18.5 %
Hybrid Pre June 2009:									
Coupon < 4.5% (5)	$789,222	101.7 %	105.4 %	$831,630	2.63 %	115	5	53 %	10.4 %
Coupon >= 4.5% (6)	36,720	101.5	106.3	39,049	5.72	107	13	70	16.0
Total Hybrids Pre June 2009	$825,942	101.7 %	105.4 %	$870,679	2.77 %	114	5	54 %	10.7 %
Total Hybrids	$2,431,149	103.5 %	105.1 %	$2,554,482	2.89 %	79	18	37 %	15.8 %

December 31, 2015

(Dollars in Thousands)	Current Face	Weighted Average Purchase Price	Weighted Average Market Price	Fair Value (1)	Weighted Average Coupon (2)	Weighted Average Loan Age (Months) (2)	Weighted Average Months to Reset (3)	Interest Only (4)	3 Month Average CPR
Hybrid Post June 2009:									
Agency 5/1	$723,853	104.2 %	105.7 %	$765,426	2.62 %	64	7	23 %	15.6 %
Agency 7/1	838,505	104.5	104.2	873,765	3.04	51	32	22	16.7
Agency 10/1	248,649	104.7	103.7	257,839	3.18	47	72	61	11.5
Total Hybrids Post June 2009	$1,811,007	104.4 %	104.8 %	$1,897,030	2.89 %	56	27	28 %	15.6 %
Hybrid Pre June 2009:									
Coupon < 4.5% (5)	$853,168	101.7 %	105.7 %	$901,870	2.43 %	109	6	59 %	8.9 %
Coupon >= 4.5% (6)	46,017	101.5	106.0	48,796	5.73	102	18	73	17.4
Total Hybrids Pre June 2009	$899,185	101.7 %	105.7 %	$950,666	2.60 %	109	6	60 %	9.3 %
Total Hybrids	$2,710,192	103.5 %	105.1 %	$2,847,696	2.80 %	73	20	39 %	13.5 %

(1) Does not include principal payments receivable of $669,000 and $1.0 million at June 30, 2016 and December 31, 2015, respectively.
(2) Weighted average is based on MBS current face at June 30, 2016 and December 31, 2015, respectively.
(3) Weighted average 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 months to reset do not reflect scheduled amortization or prepayments.

(4) Interest only represents MBS backed by mortgages currently in their interest-only period. Percentage is based on MBS current face at June 30, 2016 and December 31, 2015, respectively.
(5) Agency 3/1, 5/1, 7/1 and 10/1 Hybrid ARM-MBS with coupon less than 4.5%.
(6) Agency 3/1, 5/1, 7/1 and 10/1 Hybrid ARM-MBS with coupon greater than or equal to 4.5%.

Table of Contents

Non-Agency MBS

The following table presents information with respect to our Non-Agency MBS at June 30, 2016 and December 31, 2015:

(In Thousands)	June 30, 2016	December 31, 2015
Non-Agency MBS		
Face/Par	$6,584,638	$6,961,493
Fair Value	6,104,880	6,420,817
Amortized Cost	5,534,957	5,861,843
Purchase Discount Designated as Credit Reserve and OTTI	(724,198) (1)	(787,541) (2)
Purchase Discount Designated as Accretable	(325,548)	(312,182)
Purchase Premiums	65	73

(1) Includes discount designated as Credit Reserve of $703.3 million and OTTI of $20.9 million.
(2) Includes discount designated as Credit Reserve of $766.0 million and OTTI of $21.5 million.

59

Table of Contents

Purchase Discounts on Non-Agency MBS

The following table presents the changes in the components of purchase discount on Non-Agency MBS with respect to purchase discount designated as Credit Reserve and OTTI, and accretable purchase discount, for the three and six months ended June 30, 2016 and June 30, 2015:

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
(In Thousands)	Discount Designated as Credit Reserve and OTTI	Accretable Discount (1)	Discount Designated as Credit Reserve and OTTI	Accretable Discount (1)
Balance at beginning of period	$(757,564)	$(281,331)	$(873,533)	$(388,708)
Impact of RMBS Issuer Settlement (2)	—	(52,881)	—	—
Accretion of discount	—	19,511	—	24,095
Realized credit losses	15,729	—	21,226	—
Purchases	(6,581)	1,774	(711)	(715)
Sales	1,863	9,734	848	7,833
Net impairment losses recognized in earnings	—	—	(298)	—
Transfers/release of credit reserve	22,355	(22,355)	5,451	(5,451)
Balance at the end of period	$(724,198)	$(325,548)	$(847,017)	$(362,946)

	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
(In Thousands)	Discount Designated as Credit Reserve and OTTI	Accretable Discount (1)	Discount Designated as Credit Reserve and OTTI	Accretable Discount (1)
Balance at beginning of period	$(787,541)	$(312,182)	$(900,557)	$(399,564)
Cumulative effect adjustment on adoption of revised accounting standard for repurchase agreement financing	—	—	(15,543)	1,832
Impact of RMBS Issuer Settlement (2)	—	(52,881)	—	—
Accretion of discount	—	40,917	—	48,895
Realized credit losses	33,779	—	40,850	—
Purchases	(10,875)	3,380	(745)	(4,125)
Sales	13,883	21,774	1,897	17,802
Net impairment losses recognized in earnings	—	—	(705)	—
Transfers/release of credit reserve	26,556	(26,556)	27,786	(27,786)
Balance at the end of period	$(724,198)	$(325,548)	$(847,017)	$(362,946)

(1) Together with coupon interest, accretable purchase discount is recognized as interest income over the life of the security.

(2) Includes the impact of approximately $61.8 million of cash proceeds (a one-time payment) received by the Company during the three months ended June 30, 2016 in connection with the settlement of litigation related to certain Countrywide Residential Mortgage Backed Securitization Trusts.

Table of Contents

The following table presents information with respect to the yield components of our Non-Agency MBS for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
	Legacy Non-Agency MBS	RPL/NPL MBS	Legacy Non-Agency MBS	RPL/NPL MBS
Coupon Yield (1)	5.19%	3.81 %	5.06%	3.57 %
Effective Yield Adjustment (2)	2.53	0.02	2.53	0.09
Net Yield	7.72%	3.83 %	7.59%	3.66 %

(1) Reflects the annualized coupon interest income divided by the average amortized cost. The discounted purchase price on Legacy Non-Agency MBS causes the coupon yield to be higher than the pass-through coupon interest rate.
(2) The effective yield adjustment is the difference between the net yield, calculated utilizing management's estimates of timing and amount of future cash flows for Legacy Non-Agency MBS and RPL/NPL MBS, less the current coupon yield.

Actual maturities of MBS are generally shorter than stated contractual maturities because actual maturities of MBS are affected by the contractual lives of the underlying mortgage loans, periodic payments of principal, and prepayments of principal. The following table presents certain information regarding the amortized costs, weighted average yields and contractual maturities of our MBS at June 30, 2016 and does not reflect the effect of prepayments or scheduled principal amortization on our MBS:

	Within One Year		One to Five Years		Five to Ten Years		Over Ten Years		Total MBS		
(Dollars in Thousands)	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Total Amortized Cost	Total Fair Value	Weig Avera Yield
Agency MBS:											
Fannie Mae	$45	0.31%	$478	2.52%	$329,862	2.84 %	$3,105,985	1.83%	$3,436,370	$3,483,200	1.93%
Freddie Mac	—	—	—	—	141,667	2.73	667,759	1.82	809,426	815,997	1.98
Ginnie Mae	—	—	—	—	—	—	8,506	1.49	8,506	8,685	1.49
Total Agency MBS	$45	0.31%	$478	2.52%	$471,529	2.81 %	$3,782,250	1.83%	$4,254,302	$4,307,882	1.94%
Non-Agency MBS	$—	—	$247,046	3.98%	$3,979	17.43%	$5,283,932	6.36%	$5,534,957	$6,104,880	6.26%
Total MBS	$45	0.31%	$247,524	3.97%	$475,508	2.93 %	$9,066,182	4.47%	$9,789,259	$10,412,762	4.38%

At June 30, 2016, our CRT securities had an amortized cost of $267.1 million, a fair value of $272.6 million, a weighted average yield of 5.22% and weighted average time to maturity of 8.0 years.

Residential Whole Loans

The following table presents the contractual maturities of our residential whole loans held by consolidated trusts at June 30, 2016 and does not reflect estimates of prepayments or scheduled amortization. For residential whole loans at carrying value, amounts presented are estimated based on the underlying loan contractual amounts.

(In Thousands)	Residential Whole Loans	Residential Whole Loans

	at Carrying Value	at Fair Value
Amount due:		
Within one year	$ 2,735	$ 6,681
After one year:		
Over one to five years	3,159	4,755
Over five years	386,278	673,146
Total due after one year	$ 389,437	$ 677,901
Total residential whole loans	$ 392,172	$ 684,582

61

Table of Contents

The following table presents at June 30, 2016, the dollar amount of our residential whole loans at fair value, contractually maturing after one year, and indicates whether the loans have fixed interest rates or adjustable interest rates:

(In Thousands)	Residential Whole Loans at Fair Value (1)
Interest rates:	
Fixed	$ 432,447
Adjustable	252,135
Total	$ 684,582

(1) Includes loans on which borrowers have defaulted and are not making payments of principal and/or interest as of June 30, 2016.

Information is not presented for residential whole loans at carrying value as income is recognized based on pools of assets with similar risk characteristics using an estimated yield based on cash flows expected to be collected over the lives of the loans in such pools rather than on the contractual coupons of the underlying loans.

The following table presents additional information regarding our residential whole loans at fair value at June 30, 2016 and December 31, 2015:

	Residential Whole Loans, at Fair Value	
(Dollars in Thousands)	June 30, 2016	December 31, 2015
Loans 90 days or more past due:		
Number of Loans	2,241	2,426
Aggregate Amount Outstanding	$ 520,590	$ 493,640

Income on residential whole loans at carrying value is recognized based on pools of assets with similar credit risk characteristics using an estimated yield based on cash flows expected to be collected over the lives of the loans in such pools rather than the contractual coupons of the underlying loans. As the unit of account is at the pool level rather than the individual loan level, none of our residential whole loans at carrying value are currently considered 90 days or more past due.

Exposure to Financial Counterparties

We finance a significant portion of our residential mortgage assets with repurchase agreements and other advances. In connection with these financing arrangements, we pledge our assets as collateral to secure the borrowing. The amount of collateral pledged will typically exceed the amount of the financing with the extent of over-collateralization ranging from 1% - 6% of the amount borrowed (U.S. Treasury and Agency MBS collateral) to up to 60% (Non-Agency MBS collateral). Consequently, while repurchase agreement financing results in us recording a liability to the counterparty in our consolidated balance sheets, we are exposed to the counterparty, if during the term of the repurchase agreement financing, a lender should default on its obligation and we are not able to recover our pledged assets. The amount of this exposure is the difference between the amount loaned to us plus interest due to the counterparty and the fair value of the collateral pledged by us to the lender including accrued interest receivable on such collateral.

In addition, we use Swaps to manage interest rate risk exposure in connection with our repurchase agreement financings. We will make cash payments or pledge securities as collateral as part of a margin arrangement in connection with interest rate Swaps that are in an unrealized loss position. In the event that a counterparty for a Swap that is not subject to central clearing were to default on its obligation, we would be exposed to a loss to a Swap counterparty to the extent that the amount of cash or securities pledged exceeded the unrealized loss on the associated Swaps and we were not able to recover the excess collateral.

62

Table of Contents

The table below summarizes our exposure to our counterparties at June 30, 2016, by country:

Country	Number of Counterparties	Repurchase Agreement Financing and Other Advances	Swaps at Fair Value	Exposure (1)	Exposure as a Percentage of MFA Total Assets	
(Dollars in Thousands)						
European Countries: (2)						
Switzerland (3)	2	$1,295,208	$—	$461,669	3.60	%
United Kingdom	2	314,890	—	151,983	1.18	
France	2	502,297	—	100,341	0.78	
Holland	1	350,776	(153)	15,088	0.12	
Germany	1	—	(38)	(225)	—	
Total	8	2,463,171	(191)	728,856	5.68	%
Other Countries:						
United States (4)	15	$4,875,097	$(131,780)	$1,089,988	8.50	%
Canada (5)	4	1,377,799	—	334,567	2.61	
Japan (6)	3	474,110	—	27,484	0.21	
China (6)	1	348,360	—	9,257	0.07	
Total	23	7,075,366	(131,780)	1,461,296	11.39	%
Total Counterparty Exposure	31	$9,538,537 (7)	$(131,971)	$2,190,152	17.07	%

(1) Represents for each counterparty the amount of cash and/or securities pledged as collateral less the aggregate of repurchase agreement financing and other advances, Swaps at fair value, and net interest receivable/payable on all such instruments.
(2) Includes European-based counterparties as well as U.S.-domiciled subsidiaries of the European parent entity.
(3) Includes London branch of one counterparty and Cayman Islands branch of the other counterparty.
(4) Includes one counterparty that is a central clearing house for our Swaps.
(5) Includes Canada-based counterparties as well as U.S.-domiciled subsidiaries of Canadian parent entities. In the case of one counterparty, also includes exposure of $249.6 million to Barbados-based affiliate of the Canadian parent entity.
(6) Exposure is to U.S.-domiciled subsidiary of the Japanese or Chinese parent entity, as the case may be.
(7) Includes $500.0 million of repurchase agreements entered into in connection with contemporaneous repurchase and reverse repurchase agreements with a single counterparty.

At June 30, 2016, we did not use credit default swaps or other forms of credit protection to hedge the exposures summarized in the table above.

Uncertainty in the global financial market and weak economic conditions in Europe, including as a result of the United Kingdom's recent vote to leave the European Union ("Brexit") could potentially impact our major European financial counterparties, with the possibility that this would also impact the operations of their U.S. domiciled subsidiaries. This could adversely affect our financing and operations as well as those of the entire mortgage sector in general. Management monitors our exposure to our repurchase agreement and Swap counterparties on a regular basis, using various methods, including review of recent rating agency actions or other developments and by monitoring the amount of cash and securities collateral pledged and the associated loan amount under repurchase agreements and/or the fair value of Swaps with our counterparties. We intend to make reverse margin calls on our counterparties to recover excess collateral as permitted by the agreements governing our financing arrangements, or take other necessary actions to reduce the amount of our exposure to a counterparty when such actions are considered necessary.

Tax Considerations

Current period estimated taxable and items expected to impact future taxable income

We estimate that for the six months ended June 30, 2016, our taxable income was approximately $228.6 million. Based on dividends paid or declared during the six months ended June 30, 2016, we have undistributed taxable income of approximately $80.9 million, or $0.22 per share. We have until the filing of our 2016 tax return (due not later than September 15, 2017) to declare the distribution of any 2016 REIT taxable income not previously distributed.

Estimated undistributed taxable income as of the end of the quarter reflects the impact of proceeds received of approximately $61.8 million in connection with the settlement of litigation related to certain Countrywide Residential Mortgage Backed

63

Table of Contents

Securitization Trusts, resulting in additional estimated taxable income for the six months ended June 30, 2016 of approximately $0.05 per share.

Key differences between GAAP net income and REIT Taxable Income for Non-Agency MBS and Residential Whole Loans

Our total Non-Agency MBS portfolio for tax differs from our portfolio reported for GAAP primarily due to the fact that for tax purposes; (i) certain of the MBS contributed to the VIEs used to facilitate resecuritization transactions were deemed to be sold; and (ii) the tax portfolio includes certain securities issued by these VIEs. In addition, for our Non-Agency MBS tax portfolio, potential timing differences arise with respect to the accretion of market discount into income and recognition of realized losses for tax purposes as compared to GAAP. Consequently, our REIT taxable income calculated in a given period may differ significantly from our GAAP net income.

The determination of taxable income attributable to Non-Agency MBS and residential whole loans is dependent on a number of factors, including principal payments, defaults, loss mitigation efforts and loss severities. In projecting taxable income for Non-Agency MBS and residential whole loans during the year, management considers estimates of the amount of discount expected to be accreted. Such estimates require significant judgment and actual results may differ from these estimates. Moreover, the deductibility of realized losses from Non-Agency MBS and residential whole loans, and their effect on market discount accretion is analyzed on an asset-by-asset basis and while they will result in a reduction of taxable income, this reduction tends to occur gradually and primarily in periods after the realized losses are reported.

Resecuritization transactions result in differences between GAAP net income and REIT Taxable Income

For tax purposes, depending on the transaction structure, a resecuritization transaction may be treated either as a sale or a financing of the underlying MBS. Income recognized from resecuritization transactions will differ for tax and GAAP. For tax purposes, we own and may in the future acquire interests in resecuritization trusts, in which several of the classes of securities are or will be issued with Original Issue Discount (or OID). As the holder of the retained interests in the trust, we generally will be required to include OID in our current gross interest income over the term of the applicable securities as the OID accrues. The rate at which the OID is recognized into taxable income is calculated using a constant rate of yield to maturity, with realized losses impacting the amount of OID recognized in REIT taxable income once they are actually incurred. For tax purposes, REIT taxable income may be recognized in excess of economic income (i.e., OID) or in advance of the corresponding cash flow from these assets, thereby effecting our dividend distribution requirement to stockholders. In addition, for resecuritization transactions that were treated as a sale of the underlying MBS for tax purposes, the unwind of any such transaction will likely result in a taxable gain or loss that is likely not recognized in GAAP net income as resecuritization transactions are typically accounted for as financing transactions for GAAP purposes.

Regulatory Developments

The U.S. Congress, Board of Governors of the Federal Reserve System, U.S. Treasury, Federal Deposit Insurance Corporation, SEC and other governmental and regulatory bodies have taken and continue to consider additional actions in response to the 2007-2008 financial crisis. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (or the Dodd-Frank Act) created a new regulator, an independent bureau housed within the Federal Reserve System and known as the Consumer Financial Protection Bureau (or the CFPB). The CFPB has broad authority over a wide range of consumer financial products and services, including mortgage lending. One portion of the Dodd-Frank Act, the Mortgage Reform and Anti-Predatory Lending Act (or Mortgage Reform Act), contains underwriting and servicing standards for the mortgage industry, as well as restrictions on compensation for mortgage

originators. In addition, the Mortgage Reform Act grants broad discretionary regulatory authority to the CFPB to prohibit or condition terms, acts or practices relating to residential mortgage loans that the CFPB finds abusive, unfair, deceptive or predatory, as well as to take other actions that the CFPB finds are necessary or proper to ensure responsible affordable mortgage credit remains available to consumers. The Dodd-Frank Act also affects the securitization of mortgages (and other assets) with requirements for risk retention by securitizers and requirements for regulating Rating Agencies.

64

Table of Contents

The Dodd-Frank Act requires that numerous regulations be issued, many of which (including those mentioned above regarding underwriting and mortgage originator compensation) have only recently been implemented and operationalized. As a result, we are unable to fully predict at this time how the Dodd-Frank Act, as well as other laws that may be adopted in the future, will affect our business, results of operations and financial condition, or the environment for repurchase financing and other forms of borrowing, the investing environment for Agency MBS, Non-Agency MBS and/or residential mortgage loans, the securitization industry, Swaps and other derivatives. However, at a minimum, we believe that the Dodd-Frank Act and the regulations promulgated thereunder are likely to continue to increase the economic and compliance costs for participants in the mortgage and securitization industries, including us.

In addition to the regulatory actions being implemented under the Dodd-Frank Act, on August 31, 2011, the SEC issued a concept release under which it is reviewing interpretive issues related to Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C) excludes from the definition of "investment company" entities that are primarily engaged in, among other things, "purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." Many companies that engage in the business of acquiring mortgages and mortgage-related instruments seek to rely on existing interpretations of the SEC Staff with respect to Section 3(c)(5)(C) so as not to be deemed an investment company for the purpose of regulation under the Investment Company Act. In connection with the concept release, the SEC requested comments on, among other things, whether it should reconsider its existing interpretation of Section 3(c)(5)(C). To date the SEC has not taken or otherwise announced any further action in connection with the concept release.

Congress may continue to consider legislation that would significantly reform the country's mortgage finance system, including, among other things, eliminating Freddie Mac and Fannie Mae and replacing them with a single new MBS insurance agency. Many details remain unsettled, including the scope and costs of the agencies's guarantee and their affordable housing mission, some of which could be addressed even in the absence of large-scale reform. While the likelihood of enactment of major mortgage finance system reform in the short term remains uncertain, it is possible that the adoption of any such reforms could adversely affect the types of assets we can buy, the costs of these assets and our business operations. As the Federal Housing Finance Agency and both houses of Congress continue to consider various measures intended to dramatically restructure the U.S. housing finance system and the operations of Fannie Mae and Freddie Mac, we expect debate and discussion on the topic to continue throughout 2016.

Table of Contents

Results of Operations

Quarter Ended June 30, 2016 Compared to the Quarter Ended June 30, 2015

General

For the second quarter of 2016, we had net income available to our common stock and participating securities of $75.2 million, or $0.20 per basic and diluted common share, compared to net income available to common stock and participating securities of $74.3 million, or $0.20 per basic and diluted common share, for the second quarter of 2015.

Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends primarily upon the volume of interest-earning assets and interest-bearing liabilities and the corresponding interest rates earned or paid. Our net interest income varies primarily as a result of changes in interest rates, the slope of the yield curve (i.e., the differential between long-term and short-term interest rates), borrowing costs (i.e., our interest expense) and prepayment speeds on our MBS. Interest rates and CPRs (which measure the amount of unscheduled principal prepayment on a bond as a percentage of the bond balance) vary according to the type of investment, conditions in the financial markets, and other factors, none of which can be predicted with any certainty.

The changes in average interest-earning assets and average interest-bearing liabilities and their related yields and costs are discussed in greater detail below under “Interest Income” and “Interest Expense.”

For the second quarter of 2016, our net interest spread and margin were 2.14% and 2.46%, respectively, compared to a net interest spread and margin of 2.33% and 2.66%, respectively, for the second quarter of 2015. Our net interest income decreased by $14.4 million, or 17.7%, to $66.8 million from $81.1 million for the second quarter of 2015. Current quarter net interest income from Agency MBS and Legacy Non-Agency MBS declined compared to the second quarter of 2015 by approximately $13.7 million, primarily due to lower average balances of these securities and associated MBS repurchase agreement financings, partially offset by higher yields earned on Agency and Legacy Non-Agency MBS. In addition, net interest income for the current quarter compared to the second quarter of 2015 was approximately $2.2 million lower due to higher average balances of repurchase agreement financings associated with Residential whole loans at carrying value. This was partially offset by higher net interest income on RPL/NPL MBS and CRT securities of approximately $1.4 million.

Table of Contents

Analysis of Net Interest Income

The following table sets forth certain information about the average balances of our assets and liabilities and their related yields and costs for the three months ended June 30, 2016 and 2015. Average yields are derived by dividing annualized interest income by the average amortized cost of the related assets, and average costs are derived by dividing annualized interest expense by the daily average balance of the related liabilities, for the periods shown. The yields and costs include premium amortization and purchase discount accretion which are considered adjustments to interest rates.

	Three Months Ended June 30,					
	2016			2015		
(Dollars in Thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets:						
Agency MBS (1)	$4,402,040	$21,592	1.96 %	$5,443,465	$25,739	1.89 %
Legacy Non-Agency MBS (1)	3,047,889	58,851	7.72	3,711,855	70,428	7.59
RPL/NPL MBS (1)	2,603,709	24,914	3.83	2,411,958	22,083	3.66
Total MBS	10,053,638	105,357	4.19	11,567,278	118,250	4.09
CRT securities (1)	236,629	3,222	5.45	125,597	1,524	4.85
Residential whole loans, at carrying value (2)	373,572	5,758	6.17	243,689	4,193	6.88
Cash and cash equivalents (3)	271,068	170	0.25	254,117	29	0.05
Total interest-earning assets	10,934,907	114,507	4.19	12,190,681	123,996	4.07
Total non-interest-earning assets (2)	1,981,968			1,582,293		
Total assets	$12,916,875			$13,772,974		
Liabilities and stockholders’ equity:						
Interest-bearing liabilities:						
Agency repurchase agreements and FHLB advances (4)	$3,960,392	$12,654	1.26 %	$4,881,361	$12,873	1.06 %
Legacy Non-Agency repurchase agreements (4)	2,376,697	17,256	2.87	2,695,134	18,562	2.76
RPL/NPL repurchase agreements	2,023,477	10,256	2.01	1,914,849	7,627	1.60
CRT securities repurchase agreements	168,894	861	2.02	93,460	397	1.70
Residential whole loan repurchase agreements	572,997	4,547	3.14	135,389	764	2.26
Total repurchase agreements and other advances	9,102,457	45,574	1.98	9,720,193	40,223	1.66
Securitized debt	8,520	137	6.36	80,343	618	3.07
Senior Notes	96,709	2,009	8.31	96,677	2,008	8.31
Total interest-bearing liabilities	9,207,686	47,720	2.05	9,897,213	42,849	1.74
Total non-interest-bearing liabilities	792,630			683,240		
Total liabilities	10,000,316			10,580,453		
Stockholders’ equity	2,916,559			3,192,521		
Total liabilities and stockholders’ equity	$12,916,875			$13,772,974		
Net interest income/net interest rate spread (5)		$66,787	2.14 %		$81,147	2.33 %
Net interest-earning assets/net interest margin (6)	$1,727,221		2.46 %	$2,293,468		2.66 %
Ratio of interest-earning assets to interest-bearing liabilities	1.19 x			1.23 x		

(1) Yields presented throughout this Quarterly Report on Form 10-Q are calculated using average amortized cost data for securities which excludes unrealized gains and losses and includes principal payments receivable on securities. For GAAP reporting purposes, purchases and sales are reported on the trade date. Average amortized cost data used to determine yields is calculated based on the settlement date of the associated purchase or sale as interest income is not earned on purchased assets and continues to be earned on sold assets until settlement date. Includes Non-Agency MBS transferred to consolidated VIEs.

(2) Excludes residential whole loans held at fair value that are reported as a component of total non-interest-earning assets.

(3) Includes average interest-earning cash, cash equivalents and restricted cash.

(4) Average cost of repurchase agreements includes the cost of Swaps allocated based on the proportionate share of the overall estimated weighted average portfolio duration.

(5) Net interest rate spread reflects the difference between the yield on average interest-earning assets and average cost of funds.

(6) Net interest margin reflects annualized net interest income divided by average interest-earning assets.

67

Table of Contents

Rate/Volume Analysis

The following table presents the extent to which changes in interest rates (yield/cost) and changes in the volume (average balance) of interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) the changes attributable to changes in volume (changes in average balance multiplied by prior rate); (ii) the changes attributable to changes in rate (changes in rate multiplied by prior average balance); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately, based on absolute values, to the changes due to rate and volume.

	Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015		
	Increase/(Decrease) due to		Total Net Change in Interest Income/Expense
(In Thousands)	Volume	Rate	
Interest-earning assets:			
Agency MBS	$(5,056)	$909	$ (4,147)
Legacy Non-Agency MBS	(12,771)	1,194	(11,577)
RPL/NPL MBS	1,796	1,035	2,831
CRT securities	1,492	206	1,698
Residential whole loans, at carrying value (1)	2,040	(475)	1,565
Cash and cash equivalents	2	139	141
Total net change in income from interest-earning assets	$(12,497)	$3,008	$ (9,489)
Interest-bearing liabilities:			
Agency repurchase agreements and FHLB advances	$(2,547)	$2,328	$ (219)
Legacy Non-Agency repurchase agreements	(2,066)	760	(1,306)
RPL/NPL repurchase agreements	478	2,151	2,629
CRT securities repurchase agreements	378	86	464
Residential whole loan repurchase agreements	3,378	405	3,783
Securitized debt	(1,414)	933	(481)
Senior Notes	1	—	1
Total net change in expense of interest-bearing liabilities	$(1,792)	$6,663	$ 4,871
Net change in net interest income	$(10,705)	$(3,655)	$ (14,360)

(1) Excludes residential whole loans held at fair value which are reported as a component of non-interest-earning assets.

The following table presents certain quarterly information regarding our net interest spread and net interest margin for the quarterly periods presented:

	Total Interest-Earning Assets and Interest-Bearing Liabilities	
Quarter Ended	Net Interest Spread (1)	Net Interest Margin (2)
June 30, 2016	2.14 %	2.46 %
March 31, 2016	2.18	2.51

December 31, 2015	2.22	2.54
September 30, 2015	2.24	2.58
June 30, 2015	2.33	2.66

(1) Reflects the difference between the yield on average interest-earning assets and average cost of funds.
(2) Reflects annualized net interest income divided by average interest-earning assets.

Table of Contents

The following table presents the components of the net interest spread earned on our Agency MBS, Legacy Non-Agency MBS and RPL/NPL MBS for the quarterly periods presented:

	Agency MBS			Legacy Non-Agency MBS			RPL/NPL MBS			Total MBS		
Quarter Ended	Net Yield (1)	Cost of Funding (2)	Net Interest Rate Spread (3)	Net Yield (1)	Cost of Funding (2)	Net Interest Rate Spread (3)	Net Yield (1)	Cost of Funding (2)	Net Interest Rate Spread (3)	Net Yield (1)	Cost of Funding (2)	Net Interest Rate Spread (3)
June 30, 2016	1.96%	1.26 %	0.70 %	7.72%	2.88 %	4.84 %	3.83%	2.01 %	1.82 %	4.19%	1.91 %	2.28 %
March 31, 2016	2.07	1.27	0.80	7.61	2.86	4.75	3.97	2.07	1.90	4.23	1.91	2.32
December 31, 2015	2.04	1.17	0.87	7.64	2.90	4.74	3.70	1.81	1.89	4.17	1.81	2.36
September 30, 2015	1.84	1.13	0.71	7.60	2.76	4.84	3.74	1.73	2.01	4.08	1.73	2.35
June 30, 2015	1.89	1.06	0.83	7.59	2.77	4.82	3.66	1.60	2.06	4.09	1.65	2.44

(1) Reflects annualized interest income on MBS divided by average amortized cost of MBS.

(2) Reflects annualized interest expense divided by average balance of repurchase agreements and other advances, including the cost of Swaps allocated based on the proportionate share of the overall estimated weighted average portfolio duration and securitized debt. Agency cost of funding includes 63, 65, 74, 74 and 70 basis points and Legacy Non-Agency cost of funding includes 69, 65, 69, 66 and 68 basis points associated with Swaps to hedge interest rate sensitivity on these assets for the quarters ended June 30, 2016, March 31, 2016, December 31, 2015, September 30, 2015 and June 30, 2015, respectively.

(3) Reflects the difference between the net yield on average MBS and average cost of funds on MBS.

Interest Income

Interest income on our Agency MBS for the second quarter of 2016 decreased by $4.1 million, or 16.1% to $21.6 million from $25.7 million for the second quarter of 2015. This change primarily reflects a $1.0 billion decrease in the average amortized cost of our Agency MBS portfolio to $4.4 billion for the second quarter of 2016 from $5.4 billion for the second quarter of 2015 partially offset by an increase in the net yield on our Agency MBS to 1.96% for the second quarter of 2016 from 1.89% for the second quarter of 2015. At the end of the second quarter of 2016, the average coupon on mortgages underlying our Agency MBS was slightly higher compared to the end of the second quarter of 2015. The coupon yield on our Agency MBS portfolio increased to 2.80% for the second quarter of 2016 from 2.77% for the second quarter of 2015. During the second quarter of 2016, our Agency MBS portfolio experienced a 13.9% CPR and we recognized $9.3 million of net premium amortization compared to a CPR of 14.8% and $11.9 million of net premium amortization for the second quarter of 2015. At June 30, 2016, we had net purchase premiums on our Agency MBS of $154.6 million, or 3.8% of current par value, compared to net purchase premiums of $172.0 million, or 3.8% of par value at December 31, 2015.

Interest income on our Non-Agency MBS (which includes Non-Agency MBS transferred to consolidated VIEs) decreased $8.7 million, or 9.5%, for the second quarter of 2016 to $83.8 million compared to $92.5 million for the second quarter of 2015. This decrease is primarily due to the decrease in the average amortized cost of our Non-Agency MBS portfolio of $472.2 million or 7.7%, to $5.7 billion from $6.1 billion for the second quarter of 2015. Our Legacy Non-Agency MBS portfolio yielded 7.72% for the second quarter of 2016 compared to 7.59% for the second quarter of 2015. The increase in the yield on our Legacy Non-Agency MBS reflects the impact of the cash proceeds (a one-time payment) received during the quarter in connection with the settlement of litigation related to certain Countrywide Residential Mortgage Backed Securitization Trusts, and the improved performance of loans

underlying the Legacy Non-Agency MBS portfolio, resulting in credit reserve releases, in the current and prior year. Our RPL/NPL MBS portfolio yielded 3.83% for the second quarter of 2016 compared to 3.66% for the second quarter of 2015. The increase in the net yield on our RPL/NPL MBS portfolio is primarily due to the addition of higher yielding RPL/NPL MBS since the second quarter of 2015.

During the second quarter of 2016, we recognized net purchase discount accretion of $19.4 million on our Non-Agency MBS, compared to $24.0 million for the second quarter of 2015. At June 30, 2016, we had net purchase discounts of $1.0 billion, including Credit Reserve and previously recognized OTTI of $724.2 million, on our Legacy Non-Agency MBS, or 26.6% of par value. During the second quarter of 2016 we reallocated $22.4 million of purchase discount designated as Credit Reserve to accretable purchase discount.

69

Table of Contents

The following table presents the components of the coupon yield and net yields earned on our Agency MBS, Legacy Non-Agency MBS and RPL/NPL MBS and weighted average CPR experienced for such MBS for the quarterly periods presented:

	Agency MBS			Legacy Non-Agency MBS			RPL/NPL MBS		
Quarter Ended	Coupon Yield (1)	Net Yield (2)	3 Month Average CPR (3)	Coupon Yield (1)	Net Yield (2)	3 Month Average CPR (3)	Coupon Yield (1)	Net Yield (2)	3 Month Average Bond CPR (4)
June 30, 2016	2.80 %	1.96 %	13.9 %	5.19 %	7.72 %	16.1 %	3.81 %	3.83 %	25.4 %
March 31, 2016	2.78	2.07	11.7	5.09	7.61	13.3	3.73	3.97	23.0
December 31, 2015	2.76	2.04	11.8	5.09	7.64	14.6	3.68	3.70	21.5
September 30, 2015	2.74	1.84	15.4	5.10	7.60	16.3	3.62	3.74	29.5
June 30, 2015	2.77	1.89	14.8	5.06	7.59	14.8	3.57	3.66	28.6

(1) Reflects the annualized coupon interest income divided by the average amortized cost. The discounted purchase price on Legacy Non-Agency MBS causes the coupon yield to be higher than the pass-through coupon interest rate.
(2) Reflects annualized interest income on MBS divided by average amortized cost of MBS.
(3) 3 month average CPR weighted by positions as of the beginning of each month in the quarter.
(4) All principal payments are considered to be prepayments for CPR purposes.

Interest Expense

Our interest expense for the second quarter of 2016 increased by $4.9 million, or 11.4%, to $47.7 million, from $42.8 million for the second quarter of 2015. This increase primarily reflects increased financing rates on our repurchase agreement financings, an increase in our average borrowings to finance RPL/NPL MBS and residential whole loans, and utilization of FHLB advances, which was partially offset by a decrease in our average repurchase agreement borrowings to finance Agency MBS and Legacy Non-Agency MBS and a decrease in the average balance of securitized debt.

At June 30, 2016, we had repurchase agreement borrowings of $8.5 billion of which $3.0 billion was hedged with Swaps and FHLB advances of $545.0 million. At June 30, 2016, our Swaps designated in hedging relationships had a weighted average fixed-pay rate of 1.82% and extended 40 months on average with a maximum remaining term of approximately 86 months.

The effective interest rate paid on our borrowings increased to 2.05% for the quarter ended June 30, 2016, from 1.74% for the quarter ended June 30, 2015. This increase reflects higher financing rates on our repurchase agreement financings and the increase in our average balance of repurchase agreements to finance residential whole loans and RPL/NPL MBS, partially offset by the lower average balance of Agency and Legacy Non-Agency repurchase agreements and securitized debt.

Payments made and/or received on our Swaps are a component of our borrowing costs and accounted for interest expense of $10.5 million, or 45 basis points, for the second quarter of 2016, as compared to interest expense of $13.2 million, or 53 basis points, for the second quarter of 2015. The weighted average fixed-pay rate on our Swaps designated as hedges decreased to 1.82% for the quarter ended June 30, 2016 from 1.83% for the quarter ended June 30, 2015. The weighted average variable interest rate received on our Swaps increased to 0.44% for the quarter ended June 30, 2016 from 0.18% for the quarter ended June 30, 2015. During the quarter ended June 30, 2016, we did not enter into any new Swaps and had no Swaps amortize and/or expire.

We expect that our interest expense and funding costs for the remainder of 2016 will be impacted by market interest rates, the amount of our borrowings and incremental hedging activity, existing and future interest rates on our hedging instruments and the extent to which we execute additional longer-term structured financing transactions. As a result of these variables, our borrowing costs cannot be predicted with certainty. (See Notes 6, 9 and 18 to the accompanying consolidated financial statements, included under Item 1 of this Quarterly Report on Form 10-Q.)

OTTI

During the second quarter of 2016, we did not recognize any OTTI changes through earnings against our Non-Agency MBS. During the second quarter of 2015 we recognized OTTI charges through earnings of $298,000 against certain of our Non-Agency MBS. These impairment charges reflected changes in our estimated cash flows for such securities based on an updated assessment of the estimated future performance of the underlying collateral, including the expected principal loss over the term of the securities and changes in the expected timing of receipt of cash flows. At June 30, 2016, we had 271 Agency MBS with a gross unrealized loss of $11.6 million, 37 RPL/NPL MBS with a gross unrealized loss of $6.8 million and 45 Legacy Non-Agency MBS with a gross unrealized loss of $6.8 million. Impairments on Agency MBS in an unrealized loss position at June 30, 2016 are considered

Table of Contents

temporary and not credit related. Unrealized losses on Non-Agency MBS for which no OTTI was recorded during the quarter are considered temporary based on an assessment of changes in the expected cash flows for such securities, which considers recent bond performance and expected future performance of the underlying collateral. Significant judgment is used both in our analysis of expected cash flows for our Legacy Non-Agency MBS and any determination of the credit component of OTTI.

Other Income, net

For the second quarter of 2016, Other Income, net increased by $16.9 million, or 166.0%, to $27.0 million compared to $10.2 million for the second quarter of 2015. This increase primarily reflects a $14.5 million net gain recorded on residential whole loans held at fair value, and $9.2 million of gross gains realized on the sale of $19.8 million Non-Agency MBS. During the three months ended June 30, 2015, we sold Non-Agency MBS for $16.3 million, realizing gross gains of $7.6 million, and recorded a net gain on residential whole loans held at fair value of $3.2 million.

Operating and Other Expense

For the second quarter of 2016, we had compensation and benefits and other general and administrative expense of $11.9 million, or 1.63% of average equity, compared to $11.2 million, or 1.40% of average equity, for the second quarter of 2015. Compensation and benefits expense increased $491,000 to $7.0 million for the second quarter of 2016, compared to $6.5 million for the second quarter of 2015, primarily reflecting higher headcount and recognition for accounting purposes of additional expense associated with long term incentive awards. Our other general and administrative expenses increased by $203,000 to $4.9 million for the quarter ended June 30, 2016 compared to $4.7 million for the quarter ended June 30, 2015, primarily due to higher IT development and related expenses.

Operating and Other Expense for the second quarter of 2016 also includes $3.0 million of loan servicing and other related operating expenses related to our residential whole loan activities. These expenses increased compared to the prior year period by approximately $1.2 million, consistent with the overall growth in this asset class during 2016. The overall increase is primarily due to increased loan servicing and modification fees and non-recoverable advances on REO and carrying value loans which were partially offset by a decrease in the provision for loan losses recognized.

Selected Financial Ratios

The following table presents information regarding certain of our financial ratios at or for the dates presented:

At or for the Quarter Ended	Return on Average Total Assets (1)	Return on Average Total Stockholders' Equity (2)	Total Average Stockholders' Equity to Total Average Assets (3)	Dividend Payout Ratio (4)	Leverage Multiple (5)	Book Value per Share of Common Stock (6)
June 30, 2016	2.33 %	10.83 %	22.58 %	1.00	3.3	$ 7.41
March 31, 2016	2.29	10.82	22.19	1.00	3.4	7.17
December 31, 2015	2.10	9.80	22.56	1.05	3.4	7.47
September 30, 2015	2.22	10.21	22.85	1.00	3.3	7.70
June 30, 2015	2.16	9.78	23.18	1.00	3.3	7.96

(1) Reflects annualized net income available to common stock and participating securities divided by average total assets.
(2) Reflects annualized net income divided by average total stockholders' equity.
(3) Reflects total average stockholders' equity divided by total average assets.

(4) Reflects dividends declared per share of common stock divided by earnings per share.

(5) Represents the sum of borrowings under repurchase agreements, FHLB advances, securitized debt, payable for unsettled purchases, and obligations to return securities obtained as collateral and Senior Notes divided by stockholders' equity.

(6) Reflects total stockholders' equity less the preferred stock liquidation preference divided by total shares of common stock outstanding.

71

Table of Contents

Six Month Period Ended June 30, 2016 Compared to the Six Month Period Ended June 30, 2015

General

For the six months ended June 30, 2016, we had net income available to common stock and participating securities of $149.5 million, or $0.40 per basic and diluted common share, compared to net income available to common stock and participating securities of $152.7 million, or $0.41 per basic and diluted common share, for the six months ended June 30, 2015. The decrease in net income available to our common stock and participating securities, and the decrease of this item on a per share basis reflects a decrease in net interest income on our Agency MBS, Legacy Non-Agency MBS and higher loan servicing and other related operating expenses, partially offset by higher net gains on residential whole loans held at fair value, gains on sales of MBS and higher net interest income on RPL/NPL MBS and CRT securities.

Net Interest Income

For the first six months of 2016, our net interest spread and margin were 2.18% and 2.50%, respectively, compared to a net interest spread and margin of 2.38% and 2.72%, respectively, for the first six months of 2015. Our net interest income decreased by $30.5 million, or 18.3%, to $136.6 million from $167.1 million for the first six months of 2015. For the six months ended June 30, 2016, net interest income from Agency and Legacy Non-Agency MBS declined compared to six months ended June 30, 2015, by approximately $31.1 million, primarily due to lower average balances of these securities and associated MBS repurchase agreement financings, as well as lower yields earned on Agency MBS. In addition, net interest income for the first six months of 2016 compared to the first six months of 2015 was approximately $4.6 million lower due to higher average balances of repurchase agreement financings associated with Residential whole loans at carrying value. This was partially offset by higher net interest income on RPL/NPL MBS and CRT securities of approximately $4.9 million.

Table of Contents

Analysis of Net Interest Income

The following table sets forth certain information about the average balances of our assets and liabilities and their related yields and costs for the six months ended June 30, 2016 and 2015. Average yields are derived by dividing annualized interest income by the average amortized cost of the related assets, and average costs are derived by dividing annualized interest expense by the daily average balance of the related liabilities, for the periods shown. The yields and costs include premium amortization and purchase discount accretion which are considered adjustments to interest rates.

	Six Months Ended June 30,							
	2016				2015			
(Dollars in Thousands)	Average Balance	Interest	Average Yield/Cost		Average Balance	Interest	Average Yield/Cost	
Assets:								
Interest-earning assets:								
Agency MBS (1)	$4,514,099	$45,589	2.02	%	$5,580,159	$57,412	2.06	%
Legacy Non-Agency MBS (1)	3,106,396	119,074	7.67		3,786,163	144,190	7.62	
RPL/NPL MBS (1)	2,608,712	50,843	3.90		2,285,073	41,612	3.64	
Total MBS	10,229,207	215,506	4.21		11,651,395	243,214	4.17	
CRT securities (1)	218,034	5,914	5.42		120,137	2,884	4.80	
Residential whole loans, at carrying value (2)	324,485	10,195	6.28		232,958	7,784	6.68	
Cash and cash equivalents (3)	251,669	310	0.25		249,861	56	0.04	
Total interest-earning assets	11,023,395	231,925	4.21		12,254,351	253,938	4.14	
Total non-interest-earning assets (2)	1,936,444				1,602,058			
Total assets	$12,959,839				$13,856,409			
Liabilities and stockholders' equity:								
Interest-bearing liabilities:								
Agency repurchase agreements and FHLB advances (4)	$4,064,730	$25,806	1.26	%	$4,997,669	$27,078	1.09	%
Legacy Non-Agency repurchase agreements (4)	2,402,241	34,445	2.84		2,728,928	37,993	2.81	
RPL/NPL repurchase agreements	2,019,695	20,621	2.02		1,817,014	14,055	1.56	
CRT securities repurchase agreements	153,087	1,547	2.00		88,279	749	1.71	
Residential whole loans repurchase agreements	530,860	8,550	3.19		138,203	1,530	2.22	
Total repurchase agreements and other advances	9,170,613	90,969	1.96		9,770,093	81,405	1.68	
Securitized debt	13,473	333	4.89		91,717	1,368	3.01	
Senior Notes	96,704	4,018	8.31		96,672	4,016	8.31	
Total interest-bearing liabilities	9,280,790	95,320	2.03		9,958,482	86,789	1.76	
Total non-interest-bearing liabilities	777,811				700,485			
Total liabilities	10,058,601				10,658,967			
Stockholders' equity	2,901,238				3,197,442			
Total liabilities and stockholders' equity	$12,959,839				$13,856,409			
Net interest income/ net interest rate spread (5)		$136,605	2.18	%		$167,149	2.38	%
	$1,742,605		2.50	%	$2,295,869		2.72	%

Net interest-earning assets/ net interest margin (6)				
Ratio of interest-earning assets to interest-bearing liabilities	1.19	x	1.23	x

(1) Yields presented throughout this Quarterly Report on Form 10-Q are calculated using average amortized cost data for MBS which excludes unrealized gains and losses and includes principal payments receivable on MBS. For GAAP reporting purposes, purchases and sales are reported on the trade date. Average amortized cost data used to determine yields is calculated based on the settlement date of the associated purchase or sale as interest income is not earned on purchased assets and continues to be earned on sold assets until settlement date. Includes Non-Agency MBS transferred to consolidated VIEs.

(2) Excludes residential whole loans held at fair value that are reported as a component of total non-interest-earning assets.

(3) Includes average interest-earning cash, cash equivalents and restricted cash.

(4) Average cost of repurchase agreements includes the cost of Swaps allocated based on the proportionate share of the overall estimated weighted average portfolio duration.

(5) Net interest rate spread reflects the difference between the yield on average interest-earning assets and average cost of funds.

(6) Net interest margin reflects annualized net interest income divided by average interest-earning assets.

Table of Contents

Rate/Volume Analysis

The following table presents the extent to which changes in interest rates (yield/cost) and changes in the volume (average balance) of interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) the changes attributable to changes in volume (changes in average balance multiplied by prior rate); (ii) the changes attributable to changes in rate (changes in rate multiplied by prior average balance); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately, based on absolute values, to the changes due to rate and volume.

	Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015		
	Increase/(Decrease) due to		Total Net Change in Interest Income/Expense
(In Thousands)	Volume	Rate	
Interest-earning assets:			
Agency MBS	$(10,784)	$(1,039)	$ (11,823)
Legacy Non-Agency MBS	(25,143)	27	(25,116)
RPL/NPL MBS	6,170	3,061	9,231
CRT securities	2,614	416	3,030
Residential whole loans, at carrying value (1)	2,496	(85)	2,411
Cash and cash equivalents	1	253	254
Total net change in income from interest-earning assets	$(24,646)	$2,633	$ (22,013)
Interest-bearing liabilities:			
Agency repurchase agreements and FHLB advances	$(5,213)	$3,941	$ (1,272)
Legacy Non-Agency repurchase agreements	(3,986)	438	(3,548)
RPL/NPL repurchase agreements	1,803	4,763	6,566
CRT securities repurchase agreements	649	149	798
Residential whole loan repurchase agreements	6,091	929	7,020
Securitized debt	(1,587)	552	(1,035)
Senior Notes	2	—	2
Total net change in expense of interest-bearing liabilities	$(2,241)	$10,772	$ 8,531
Net change in net interest income	$(22,405)	$(8,139)	$ (30,544)

(1) Excludes residential whole loans held at fair value which are reported as a component of non-interest-earning assets.

The following table presents the components of the net interest spread earned on our Agency MBS, Legacy Non-Agency MBS and RPL/NPL MBS for the periods presented:

	Agency MBS			Legacy Non-Agency MBS			RPL/NPL MBS			Total MBS		
Six Months Ended	Net Yield (1)	Cost of Funding (2)	Net Interest Spread (3)	Net Yield (1)	Cost of Funding (2)	Net Interest Spread (3)	Net Yield (1)	Cost of Funding (2)	Net Interest Spread (3)	Net Yield (1)	Cost of Funding (2)	Net Interest Spread (3)
June 30, 2016	2.02%	1.26 %	0.76 %	7.67%	2.85 %	4.82 %	3.90%	2.02 %	1.88 %	4.21%	1.89 %	2.32 %

June 30, 2015	2.06 %	1.09 %	0.97 %	7.62 %	2.81 %	4.81 %	3.64 %	1.56 %	2.08 %	4.17 %	1.68 %	2.49 %

(1) Reflects annualized interest income on MBS divided by average amortized cost of MBS.
(2) Reflects annualized interest expense divided by average balance of repurchase agreements and other advances, including the cost of Swaps allocated based on the proportionate share of the overall estimated weighted average portfolio duration, and securitized debt. Agency cost of funding includes 63 and 74 basis points and Legacy Non-Agency cost of funding includes 66 and 73 basis points associated with Swaps to hedge interest rate sensitivity on these assets for the six months ended June 30, 2016 and 2015, respectively.
(3) Reflects the difference between the net yield on average MBS and average cost of funds on MBS.

Table of Contents

Interest Income

Interest income on our Agency MBS for the first six months of 2016 decreased by $11.8 million, or 20.6%, to $45.6 million from $57.4 million for the first six months of 2015. This change primarily reflects a $1.1 billion decrease in the average amortized cost of our Agency MBS portfolio to $4.5 billion for the first six months of 2016 from $5.6 billion for the first six months of 2015. In addition, the net yield on our Agency MBS decreased to 2.02% for first six months of 2016 from 2.06% for the first six months of 2015. At the end of the second quarter of 2016, the average coupon on mortgages underlying our Agency MBS was lower compared to the end of the second quarter of 2015. The coupon yield on our Agency MBS portfolio declined 2 basis points to 2.79% for the first six months of 2016 from 2.81% for the first six months of 2015. During the first six months of 2016, our Agency MBS portfolio experienced an 11.0% CPR and we recognized $17.4 million of net premium amortization compared to a CPR of 11.0% and $21.0 million of net premium amortization for the first six months of 2015. At June 30, 2016, we had net purchase premiums on our Agency MBS of $154.6 million, or 3.8% of current par value, compared to net purchase premiums of $172.0 million, or 3.8% of par value at December 31, 2015.

Interest income on our Non-Agency MBS (which includes Non-Agency MBS transferred to consolidated VIEs) decreased by $15.9 million, or 8.5%, for the first six months of 2016 to $169.9 million compared to $185.8 million for the first six months of 2015, primarily due to the decrease in the average amortized cost of our Non-Agency portfolio of $356.1 million or 5.9%, to $5.7 billion from $6.1 billion for the first six months of 2015. Our Legacy Non-Agency MBS portfolio yielded 7.67% for the first six months of 2016 compared to 7.62% for the first six months of 2015. The increase in the yield on our Legacy Non-Agency MBS reflects the impact of the cash proceeds (a one-time payment) received during the quarter ended June 30, 2016 in connection with the settlement of litigation related to certain Countrywide Residential Mortgage Backed Securitization Trusts, and the improved performance of loans underlying the Legacy Non-Agency MBS portfolio, resulting in credit reserve releases, in the current and prior year, which was partially offset by prepayments on higher yielding assets in the portfolio. Our RPL/NPL MBS portfolio yielded 3.90% for the first six months of 2016 compared to 3.64% for the first six months of 2015. The increase in the net yield on our RPL/NPL MBS is primarily due to the addition of higher yielding RPL/NPL MBS since the second quarter of 2015 and the impact of redemptions during the first six months of 2016 of certain RPL/NPL MBS that had been previously purchased at a discount.

During the first six months of 2016, we recognized net purchase discount accretion of $40.9 million on our Non-Agency MBS, compared to $48.8 million for the first six months of 2015. At June 30, 2016, we had net purchase discounts of $1.0 billion, including Credit Reserve and previously recognized OTTI of $724.2 million, on our Legacy Non-Agency MBS, or 26.6% of par value. During the first six months of 2016 we reallocated $26.6 million of purchased discount designated as Credit Reserve to accretable purchase discount.

The following table presents the coupon yields and net yields earned on our Agency MBS, Legacy Non-Agency MBS and RPL/NPL MBS and weighted average CPRs experienced for such MBS for the periods presented:

	Agency MBS			Legacy Non-Agency MBS			RPL/NPL MBS		
Six Months Ended	Coupon Yield (1)	Net Yield (2)	6 Month Average CPR (3)	Coupon Yield (1)	Net Yield (2)	6 Month Average CPR (3)	Coupon Yield (1)	Net Yield (2)	6 Month Average Bond CPR (4)
June 30, 2016	2.79 %	2.02 %	11.0 %	5.16 %	7.67 %	12.7 %	3.77 %	3.90 %	24.2 %
June 30, 2015	2.81	2.06	11.0	5.09	7.62	11.2	3.56	3.64	24.6

(1) Reflects the annualized coupon interest income divided by the average amortized cost. The discounted purchase price on Legacy Non-Agency MBS causes the coupon yield to be higher than the pass-through coupon interest rate.

(2) Reflects annualized interest income on MBS divided by average amortized cost of MBS.
(3) 6 month average CPR weighted by positions as of the beginning of each month in the quarter.
(4) All principal payments are considered to be prepayments for CPR purposes.

Interest Expense

Our interest expense for the first six months of 2016 increased by $8.5 million, or 9.8%, to $95.3 million, from $86.8 million for the first six months of 2015. This increase primarily reflects an increase in our average borrowings to finance residential whole loans and RPL/NPL MBS, an increase in financing rates on our repurchase agreement financings, and utilization of FHLB advances, which was partially offset by a decrease in our average repurchase agreement borrowings to finance Agency MBS and Legacy Non-Agency MBS and a decrease in the average balance of securitized debt.

Table of Contents

At June 30, 2016, we had repurchase agreement borrowings of $8.5 billion, of which $3.0 billion was hedged with Swaps and FHLB advances of $545.0 million. At June 30, 2016, our Swaps designated in hedging relationships had a weighted average fixed-pay rate of 1.82% and extended 40 months on average with a maximum remaining term of approximately 86 months.

The effective interest rate paid on our borrowings increased to 2.03% for the six months ended June 30, 2016, from 1.76% for the six months ended June 30, 2015. This increase reflects higher financing rates on our repurchase agreement financings, the increase in our average balance of repurchase agreements to finance residential whole loans and RPL/NPL MBS, partially offset by the lower average balance of Agency and Legacy Non-Agency repurchase agreements and securitized debt.

Payments made and/or received on our Swaps are a component of our borrowing costs and accounted for interest expense of $21.1 million, or 45 basis points, for the six months ended June 30, 2016, compared to interest expense of $28.6 million, or 58 basis points, for the first six months of 2015. The weighted average fixed-pay rate on our Swaps designated as hedges decreased to 1.82% for the first six months of 2016 from 1.84% for the first six months of 2015. The weighted average variable interest rate received on our Swaps designated as hedges increased to 0.43% for the first six months of 2016 from 0.18% for the first six months of 2015. During the first six months ended June 30, 2016, we did not enter into any new Swaps and had Swaps with an aggregate notional amount of $50.0 million and a weighted average fixed-pay rate of 2.13% amortize and/or expire.

We expect that our interest expense and funding costs for the remainder of 2016 will be impacted by market interest rates, the amount of our borrowings and incremental hedging activity, existing and future interest rates on our hedging instruments and the extent to which we execute additional longer-term structured financing transactions. As a result of these variables, our borrowing costs cannot be predicted with any certainty. (See Notes 6, 9 and 18 to the accompanying consolidated financial statements, included under Item 1 of this Quarterly Report on Form 10-Q.)

OTTI

During the first six months of 2016, we did not recognize any OTTI charges through earnings against our Non-Agency MBS. During the first six months of 2015 we recognized OTTI charges through earnings of $705,000 against certain of our Non-Agency MBS. These impairment charges reflected changes in our estimated cash flows for such securities based on an updated assessment of the estimated future performance of the underlying collateral, including the expected principal loss over the term of the securities and changes in the expected timing of receipt of cash flows. At June 30, 2016, we had 271 Agency MBS with a gross unrealized loss of $11.6 million, 37 RPL/NPL MBS with a gross unrealized loss of $6.8 million, and 45 Legacy Non-Agency MBS with a gross unrealized loss of $6.8 million. Impairments on Agency MBS in an unrealized loss position at June 30, 2016 are considered temporary and not credit related. Unrealized losses on Non-Agency MBS for which no OTTI was recorded during the quarter are considered temporary based on an assessment of changes in the expected cash flows for such securities, which considers recent bond performance and expected future performance of the underlying collateral. Significant judgment is used both in our analysis of expected cash flows for our Legacy Non-Agency MBS and any determination of the credit component of OTTI.

Other Income, net

For the first six months of 2016, Other income, net increased by $30.8 million, or 162.6%, to $49.7 million compared to $18.9 million for the first six months of 2015. Other income, net for the first six months of 2016 primarily reflects a $26.4 million net gain recorded on residential whole loans held at fair value, and $19.0 million of gross gains realized on the sale of $51.8 million Non-Agency MBS. During the six months ended June 30, 2015, we sold Non-Agency MBS for $27.2 million, realizing gross gains of $14.1 million and recorded a net gain on residential

whole loans held at fair value of $5.3 million.

Operating and Other Expense

During the first six months of 2016, we had compensation and benefits and other general and administrative expense of $23.2 million, or 1.60% of average equity, compared to $21.4 million, or 1.34% of average equity, for the first six months of 2015. Compensation and benefits expense increased $1.2 million to $14.4 million for the first six months ended June 30, 2016, compared to $13.3 million for the first six months ended June 30, 2015, primarily reflecting higher headcount and recognition for accounting purposes of additional expense associated with long term incentive awards. Our other general and administrative expenses increased by $664,000 to $8.8 million for the first six months of 2016 compared to $8.1 million for the first six months of 2015, primarily due to higher IT development and related expenses.

Operating and Other Expense during the first six months of 2016 also includes $6.1 million of loan servicing and other related operating expenses related to our residential whole loan activities. These expenses increased compared to the prior year period by approximately $2.4 million, consistent with the overall growth in this asset class during 2016. The overall increase is primarily

76

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due to increased loan servicing and modification fees and non-recoverable advances on REO and carrying value loans which were partially offset by a decrease in the provision for loan losses recognized.

Selected Financial Ratios

The following table presents information regarding certain of our financial ratios at or for the dates presented:

At or for the Six Months Ended	Return on Average Total Assets (1)		Return on Average Total Stockholders' Equity (2)		Total Average Stockholders' Equity to Total Average Assets (3)		Dividend Payout Ratio (4)	Leverage Multiple (5)	Book Value per Share of Common Stock (6)
June 30, 2016	2.31	%	10.82	%	22.39	%	1.00	3.3	$ 7.41
June 30, 2015	2.20		10.02		23.08		0.98	3.3	7.96

(1) Reflects annualized net income available to common stock and participating securities divided by average total assets.
(2) Reflects annualized net income divided by average total stockholders' equity.
(3) Reflects total average stockholders' equity divided by total average assets.
(4) Reflects dividends declared per share of common stock divided by earnings per share.
(5) Represents the sum of borrowings under repurchase agreements, FHLB advances, securitized debt, payable for unsettled purchases, and obligations to return securities obtained as collateral and Senior Notes divided by stockholders' equity.
(6) Reflects total stockholders' equity less the preferred stock liquidation preference divided by total shares of common stock outstanding.

Recent Accounting Standards to be Adopted in Future Periods

Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, Measurements of Credit Losses on Financial Instruments (or ASU 2016-13). The amendments in ASU 2016-13 require entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Entities will now use forward-looking information to better inform their credit loss estimates. ASU 2016-13 also requires enhanced financial statement disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. Under ASU 2016-13 credit losses for available-for-sale debt securities should be measured in a manner similar to current GAAP. However, the amendments in this ASU require that credit losses be recorded through an allowance for credit losses, which will allow subsequent reversals in credit loss estimates to be recognized in current income. In addition, the allowance on available-for-sale debt securities will be limited to the extent that the fair value is less than the amortized cost.

ASU 2016-13 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for all entities for annual periods beginning after December 15, 2018, and interim periods therein. The amendments in this ASU are required to be applied by recording a cumulative-effect adjustment to equity as of the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an OTTI had been recognized before the effective date. We are currently evaluating the effect that ASU 2016-13 will have on our consolidated financial statements and related disclosures.

Compensation - Stock Compensation - Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (or ASU 2016-09). The amendments of this ASU will require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. It will also allow an employer to repurchase more of an employee's shares than it can today for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. ASU 2016-09 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. We do not expect the adoption of ASU 2016-09 to have a significant impact on our financial position or financial statement disclosures.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (or ASU 2016-02). The amendments in this ASU establish a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense

Table of Contents

recognition in the income statement. ASU 2016-02 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements and related disclosures.

Financial Instruments - Overall - Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (or ASU 2016-01). The amendments in this ASU affect all entities that hold financial assets or owe financial liabilities, and address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The classification and measurement guidance of investments in debt securities and loans are not affected by the amendments in this ASU. ASU 2016-01 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is not permitted for public business entities, except for a provision related to financial statements of fiscal years or interim periods that have not yet been issued, to recognize in other comprehensive income, the change in fair value of a liability resulting from a change in the instrument-specific credit risk measured using the fair value option. The amendments in this ASU are required to be applied by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. We are currently evaluating the effect that ASU 2016-01 will have on our consolidated financial statements and related disclosures.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (or ASU 2014-09). The ASU requires an entity to recognize revenue in an amount that reflects the consideration to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. On April 29, 2015, the FASB proposed a one-year deferral of the effective date for ASU 2014-09. On July 9, 2015 the FASB affirmed its proposal to defer the effective date of the new revenue standard for all entities by one year. As a result, public entities would apply the new revenue standard to annual reporting periods beginning after December 15, 2017 and interim periods therein. The FASB would also permit entities to adopt the standard early, but not before the original public entity effective date. We are currently evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Presentation of Financial Statements - Going Concern

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (or ASU 2014-15). The amendments in this ASU provide guidance in GAAP about management’s responsibility to evaluate whether there is a substantial doubt about an entity’s going concern and to provide related footnote disclosures. In connection with preparing financial statements for each annual and interim reporting period, an entity’s management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The amendments in ASU 2014-15 are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. We do not expect adoption of ASU 2014-15 to have a significant impact on our financial position or financial statement disclosures.

Proposed Accounting Standards

The FASB has recently issued or discussed a number of proposed standards on such topics as hedge accounting, classification of certain cash flows, and disclosures about liquidity risk and interest rate risk. Some of the proposed changes are potentially significant and could have a material impact on our reporting. We have not yet fully evaluated the potential impact of these proposals but will make such an evaluation as the standards are finalized.

78

Table of Contents

Liquidity and Capital Resources

General

Our principal sources of cash generally consist of borrowings under repurchase agreements and other collateralized financings, payments of principal and interest we receive on our MBS portfolio, cash generated from our operating results and, to the extent such transactions are entered into, proceeds from capital market and structured financing transactions. Our most significant uses of cash are generally to pay principal and interest on our financing transactions, to purchase MBS and residential whole loans, to make dividend payments on our capital stock, to fund our operations and to make other investments that we consider appropriate.

We seek to employ a diverse capital raising strategy under which we may issue capital stock and other types of securities. To the extent we raise additional funds through capital market transactions, we currently anticipate using the net proceeds from such transactions to acquire additional MBS and residential whole loans, consistent with our investment policy, and for working capital, which may include, among other things, the repayment of our financing transactions. There can be no assurance, however, that we will be able to access the capital markets at any particular time or on any particular terms. We have available for issuance an unlimited amount (subject to the terms and limitations of our charter) of common stock, preferred stock, depositary shares representing preferred stock, warrants, debt securities, rights and/or units pursuant to our automatic shelf registration statement and, at June 30, 2016, we had 6.8 million shares of common stock available for issuance pursuant to our DRSPP shelf registration statement. During the six months ended June 30, 2016, we issued 90,132 shares of common stock through our DRSPP, raising net proceeds of approximately $596,000.

Our borrowings under repurchase agreements are uncommitted and renewable at the discretion of our lenders and, as such, our lenders could determine to reduce or terminate our access to future borrowings at virtually any time. The terms of the repurchase transaction borrowings under our master repurchase agreements, as such terms relate to repayment, margin requirements and the segregation of all securities that are the subject of repurchase transactions, generally conform to the terms contained in the standard master repurchase agreement published by the Securities Industry and Financial Markets Association (or SIFMA) or the global master repurchase agreement published by SIFMA and the International Capital Market Association. In addition, each lender typically requires that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions, which differ by lender, may include changes to the margin maintenance requirements, required haircuts (as defined below), purchase price maintenance requirements, requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction and cross default and setoff provisions.

With respect to margin maintenance requirements for repurchase agreements with Non-Agency MBS as collateral, margin calls are typically determined by our counterparties based on their assessment of changes in the fair value of the underlying collateral and in accordance with the agreed upon haircuts specified in the transaction confirmation with the counterparty. We address margin call requests in accordance with the required terms specified in the applicable repurchase agreement and such requests are typically satisfied by posting additional cash or collateral on the same business day. We review margin calls made by counterparties and assess them for reasonableness by comparing the counterparty valuation against our valuation determination. When we believe that a margin call is unnecessary because our assessment of collateral value differs from the counterparty valuation, we typically hold discussions with the counterparty and are able to resolve the matter. In the unlikely event that resolution cannot be reached, we will look to resolve the dispute based on the remedies available to us under the terms of the repurchase agreement, which in some instances may include the engagement of a third party to review collateral valuations. For other agreements that do not include such provisions, we could resolve the matter by substituting collateral as permitted in accordance with the agreement or otherwise request the counterparty to return the collateral in exchange for cash to unwind the financing.

79

Table of Contents

The following table presents information regarding the margin requirements, or the percentage amount by which the collateral value is contractually required to exceed the loan amount (this difference is referred to as the "haircut"), on our repurchase agreements at June 30, 2016 and December 31, 2015:

At June 30, 2016	Weighted Average Haircut		Low		High	
Repurchase agreement borrowings secured by:						
Agency MBS	4.67	%	3.00	%	6.00	%
Legacy Non-Agency MBS	24.45		15.00		60.00	
RPL/NPL MBS	23.01		17.50		30.00	
U.S. Treasury securities	1.59		1.00		2.00	
CRT securities	25.29		20.00		30.00	
Residential whole loans	26.10		25.00		35.00	

At December 31, 2015	Weighted Average Haircut		Low		High	
Repurchase agreement borrowings secured by:						
Agency MBS	4.67	%	3.00	%	6.00	%
Legacy Non-Agency MBS	25.84		10.00		63.50	
RPL/NPL MBS	21.05		20.00		30.00	
U.S. Treasury securities	1.60		1.00		2.00	
CRT securities	25.04		20.00		30.00	
Residential whole loans	27.69		25.00		36.00	

The weighted average haircut requirements for the respective underlying collateral types for our repurchase agreements have not significantly changed since December 31, 2015.

During the first six months of 2016, the financial market environment was impacted by continued accommodative monetary policy. Repurchase agreement funding for both Agency MBS and Non-Agency MBS has been available to us at generally attractive market terms from multiple counterparties. Typically, due to the credit risk inherent to Non-Agency MBS, repurchase agreement funding involving Non-Agency MBS is available from fewer counterparties, at terms requiring higher collateralization and higher interest rates, than repurchase agreement funding secured by Agency MBS and U.S. Treasury securities. Therefore, we generally expect to be able to finance our acquisitions of Agency MBS on more favorable terms than financing for Non-Agency MBS.

In July 2015, our wholly-owned subsidiary, MFA Insurance became a member of the FHLB. As a member of the FHLB, MFA Insurance had access to a variety of products and services offered by the FHLB, including secured advances (subject to our continued creditworthiness, pledging of sufficient eligible collateral to secure advances, and compliance with certain agreements with the FHLB). The weighted average haircut on our FHLB advances at June 30, 2016 was 6.55% compared to 7.00% as of December 31, 2015. However, in January, 2016, the FHFA amended its regulation on FHLB membership, which, among other things, provided termination rules for current captive insurance members. As a result, MFA Insurance will not be permitted new advances or renewal of existing advances and will be required to terminate its FHLB membership and repay any outstanding advances by no later than February 19, 2017. As of June 30, 2016, MFA Insurance had approximately $545.0 million in outstanding advances (backed by Agency MBS) compared to $1.5 billion as of December 31, 2015.

We maintain cash and cash equivalents, unpledged Agency and Non-Agency MBS and collateral in excess of margin requirements held by our counterparties (or collectively, "cash and other unpledged collateral") to meet routine margin calls and protect against unforeseen reductions in our borrowing capabilities. Our ability to meet future margin calls will be impacted by our ability to use cash or obtain financing from unpledged collateral, which can vary based on the market value of such collateral, our cash position and margin requirements. Our cash position fluctuates based on the timing of our operating, investing and financing activities and is managed based on our anticipated cash needs. (See our Consolidated Statements of Cash Flows, included under Item 1 of this Quarterly Report on Form 10-Q and "Interest Rate Risk" included under Item 3 of this Quarterly Report on Form 10-Q.)

Table of Contents

At June 30, 2016, we had a total of $10.4 billion of MBS, U.S. Treasury securities, CRT securities and residential whole loans and $143.1 million of restricted cash pledged against our repurchase agreements and Swaps. In addition, at June 30, 2016, we had $585.1 million of Agency MBS pledged against our FHLB advances. At June 30, 2016, we have access to various sources of liquidity which we estimate exceeds $522.7 million. This includes (i) $182.8 million of cash and cash equivalents; (ii) $220.2 million in estimated financing available from unpledged Agency MBS and other Agency MBS collateral that is currently pledged in excess of contractual requirements; and (iii) $119.7 million in estimated financing available from unpledged Non-Agency MBS.

The table below presents certain information about our borrowings under repurchase agreements and other advances, and securitized debt:

	Repurchase Agreements and Other Advances			Securitized Debt		
Quarter Ended (1)	Quarterly Average Balance	End of Period Balance	Maximum Balance at Any Month-End	Quarterly Average Balance	End of Period Balance	Maximum Balance at Any Month-End
(In Thousands)						
June 30, 2016	$9,102,457	$ 9,038,087	$ 9,114,859	$8,520	$ —	$ 8,568
March 31, 2016	9,238,772	9,143,645	9,205,547	18,425	11,821	18,247
December 31, 2015	9,428,211	9,387,622	9,413,189	28,009	21,868	27,686
September 30, 2015	9,422,881	9,475,834	9,486,357	50,691	31,940	49,941
June 30, 2015	9,720,193	9,635,035	9,746,825	80,343	61,965	80,331

(1) The information presented in the table above excludes Senior Notes issued in April 2012. The outstanding balance of Senior Notes has been unchanged at $100.0 million since issuance.

Cash Flows and Liquidity For the Six Months Ended June 30, 2016

Our cash and cash equivalents increased by $17.8 million during the six months ended June 30, 2016, reflecting: $601.6 million provided by our investing activities; $36.1 million provided by our operating activities; and $619.9 million used in our financing activities.

At June 30, 2016, our debt-to-equity multiple was 3.3 times, as compared to 3.4 times at December 31, 2015. At June 30, 2016, we had borrowings under repurchase agreements of $8.5 billion with 28 counterparties, of which $3.3 billion was secured by Agency MBS, $1.9 billion was secured by Legacy Non-Agency MBS, $2.1 billion was secured by RPL/NPL MBS, $505.8 million was secured by U.S. Treasuries, $191.0 million was secured by CRT securities and $584.0 million was secured by residential whole loans. In addition, at June 30, 2016 we had $545.0 million in outstanding FHLB advances, secured by Agency MBS. We continue to have available capacity under our repurchase agreement credit lines. At December 31, 2015, we had borrowings under repurchase agreements of $7.9 billion with 27 counterparties, of which $2.7 billion was secured by Agency MBS, $2.0 billion was secured by Legacy Non-Agency MBS, $2.1 billion was secured by RPL/NPL MBS, $504.8 million was secured by U.S. Treasuries, $128.5 million by CRT securities and $487.8 million was secured by residential whole loans. In addition, at December 31, 2015 we had $1.5 billion in outstanding FHLB advances, secured by Agency MBS.

During the six months ended June 30, 2016, we made principal payments of $22.1 million to payoff the balance of our securitized debt.

During the six months ended June 30, 2016, $601.6 million was provided through our investing activities. We received cash of $1.6 billion from prepayments and scheduled amortization on our MBS, of which $451.8 million was attributable to Agency MBS and $1.2 billion was from Non-Agency MBS (which includes approximately $61.8

million of cash proceeds (a one-time payment) received during the three months ended June 30, 2016 in connection with the settlement of litigation related to certain Countrywide Residential Mortgage Backed Securitization Trusts). We purchased $844.6 million of Non-Agency MBS and $80.1 million of CRT securities funded with cash and repurchase agreement borrowings. While we generally intend to hold our MBS as long-term investments, we may sell certain of our securities in order to manage our interest rate risk and liquidity needs, meet other operating objectives and adapt to market conditions. In addition, during the six months ended June 30, 2016 we sold certain of our Non-Agency MBS for $51.8 million, realizing gross gains of $19.0 million.

In connection with our repurchase agreement borrowings and Swaps, we routinely receive margin calls/reverse margin calls from our counterparties and make margin calls to our counterparties. Margin calls and reverse margin calls, which requirements vary over time, may occur daily between us and any of our counterparties when the value of collateral pledged changes from the amount contractually required. The value of securities pledged as collateral fluctuates reflecting changes in: (i) the face (or par)

Table of Contents

value of our MBS; (ii) market interest rates and/or other market conditions; and (iii) the market value of our Swaps. Margin calls/reverse margin calls are satisfied when we pledge/receive additional collateral in the form of additional securities and/or cash.

The table below summarizes our margin activity with respect to our repurchase agreement financings and derivative hedging instruments for the quarterly periods presented.

	Collateral Pledged to Meet Margin Calls			Cash and Securities Received for Reverse Margin Calls	Net Assets Received/(Pledged) for Margin Activity
For the Quarter Ended	Fair Value of Securities Pledged	Cash Pledged	Aggregate Assets Pledged For Margin Calls		
(In Thousands)					
June 30, 2016	$ 326,555	$ 63,600	$ 390,155	$ 281,912	$ (108,243)
March 31, 2016	269,027	117,800	386,827	325,233	(61,594)
December 31, 2015	225,323	32,200	257,523	276,596	19,073
September 30, 2015	397,763	86,300	484,063	433,003	(51,060)
June 30, 2015	391,088	50,700	441,788	408,968	(32,820)

We are subject to various financial covenants under our repurchase agreements and derivative contracts, which include minimum net worth and/or profitability requirements, maximum debt-to-equity ratios and minimum market capitalization requirements. We have maintained compliance with all of our financial covenants through June 30, 2016.

During the six months ended June 30, 2016, we paid $148.9 million for cash dividends on our common stock and dividend equivalents and paid cash dividends of $7.5 million on our preferred stock. On June 14, 2016, we declared our second quarter 2016 dividend on our common stock of $0.20 per share; on July 29, 2016, we paid this dividend, which totaled approximately $74.4 million, including dividend equivalents of approximately $241,000.

We believe that we have adequate financial resources to meet our current obligations, including margin calls, as they come due, to fund dividends we declare and to actively pursue our investment strategies. However, should the value of our MBS suddenly decrease, significant margin calls on our repurchase agreement borrowings could result and our liquidity position could be materially and adversely affected. Further, should market liquidity tighten, our repurchase agreement counterparties may increase our margin requirements on new financings, reducing our ability to use leverage. Access to financing may also be negatively impacted by the ongoing volatility in the world financial markets, potentially adversely impacting our current or potential lenders' ability or willingness to provide us with financing. In addition, there is no assurance that favorable market conditions will continue to permit us to consummate additional securitization transactions if we determine to seek that form of financing.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

Inflation

Substantially all of our assets and liabilities are financial in nature. As a result, changes in interest rates and other factors impact our performance far more than does inflation. Our results of operations and reported assets, liabilities

and equity are measured with reference to historical cost or fair value without considering inflation.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We seek to manage our risks related to interest rates, liquidity, prepayment speeds, market value and the credit quality of our assets while, at the same time, seeking to provide an opportunity to stockholders to realize attractive total returns through ownership of our capital stock. While we do not seek to avoid risk, we seek, consistent with our investment policies, to: assume risk that can be quantified based on management's judgment and experience and actively manage such risk; earn sufficient returns to justify the taking of such risks; and maintain capital levels consistent with the risks that we undertake.

Interest Rate Risk

We generally acquire interest-rate sensitive assets and fund them with interest-rate sensitive liabilities, a portion of which are hedged with Swaps. We are exposed to interest rate risk on our residential mortgage assets, as well as on our liabilities (repurchase agreements, FHLB advances and securitized debt). Changes in interest rates can affect our net interest income and the fair value of our assets and liabilities.
We finance the majority of our investments in Agency, Legacy Non-Agency and RPL/NPL MBS with short-term repurchase agreements. In general, when interest rates change, the borrowing costs of our repurchase agreements (net of the impact of Swaps) change more quickly than the yield on our assets. In a rising interest rate environment, the borrowing costs of our repurchase agreements may increase faster than the interest income on our assets, thereby reducing our net income. In order to mitigate compression in net income based on such interest rate movements, we use Swaps and other hedging instruments to lock in a portion of the net interest spread between assets and liabilities.

When interest rates change, the fair value of our residential mortgage assets could change at a different rate than the fair value of our liabilities. We measure the sensitivity of our portfolio to changes in interest rates by estimating the duration of our assets and liabilities. Duration is the approximate percentage change in fair value for a 100 basis point parallel shift in the yield curve. In general, our assets have higher duration than our liabilities and in order to reduce this exposure we use Swaps and other hedging instruments to reduce the gap in duration between our assets and liabilities.

In calculating the duration of our Agency MBS we take into account the characteristics of the underlying mortgage loans including whether the underlying loans are fixed rate, adjustable or hybrid; coupon, expected prepayment rates and lifetime and periodic caps. We use third-party financial models, combined with management's assumptions and observed empirical data when estimating the duration of our Agency MBS.

In analyzing the interest rate sensitivity of our Legacy Non-Agency MBS we take into account the characteristics of the underlying mortgage loans, including credit quality and whether the underlying loans are fixed-rate, adjustable or hybrid. We estimate the duration of our Legacy Non-Agency MBS using management's assumptions.

Our RPL/NPL MBS deal structures contain an interest rate step-up feature whereby the original coupon increases by 300 basis points if the bond is not redeemed by the issuer after 36 months. Therefore, we believe their fair value exhibits little sensitivity to changes in interest rates. We estimate the duration of our RPL/NPL MBS using management's assumptions.

The fair value of our re-performing residential whole loans is dependent on the value of the underlying real estate collateral, past and expected delinquency status of the borrower as well as the level of interest rates. Because the borrower is not delinquent on their mortgage payments but is less likely to prepay the loan due to weak credit history and/or high LTV, we believe our re-performing residential whole loans exhibit positive duration. We estimate the duration of our re-performing residential whole loans using management's assumptions.

The fair value of our non-performing residential whole loans is primarily dependent on the value of the underlying real estate collateral and the time required for collateral liquidation. Since neither the value of the collateral nor the liquidation timeline is generally sensitive to interest rates, we believe their fair value exhibits little sensitivity to interest rates. We estimate the duration of our non-performing residential whole loans using management's assumptions.

We use Swaps as part of our overall interest rate risk management strategy. Such derivative financial instruments are intended to act as a hedge against future interest rate increases on our repurchase agreement financings, which rates are typically highly correlated with LIBOR. While our derivatives do not extend the maturities of our borrowings under repurchase agreements, they do, in effect, lock in a fixed rate of interest over their term for a corresponding amount of our repurchase agreement financings that are hedged.

Table of Contents

At June 30, 2016, MFA's $7.8 billion of Agency MBS 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:

Time to Reset	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)
(Dollars in Thousands)									
< 2 years (5)	$1,844,984	7	14.6 %	$2,354,307	5	15.5 %	$4,199,291	6	15.2 %
2-5 years	646,936	33	17.6	—	—	—	646,936	33	17.6
> 5 years	173,262	72	18.2	—	—	—	173,262	72	18.2
ARM-MBS Total	$2,665,182	17	15.6 %	$2,354,307	5	15.5 %	$5,019,489	12	15.6 %
15-year fixed (6)	$1,642,031		11.1 %	$6,685		14.7 %	$1,648,716		11.1 %
30-year fixed (6)	—		—	1,098,577		17.3	1,098,577		17.3
40-year fixed (6)	—		—	6,305		12.7	6,305		12.7
Fixed-Rate Total	$1,642,031		11.1 %	$1,111,567		17.3 %	$2,753,598		13.8 %
MBS Total	$4,307,213		13.9 %	$3,465,874		16.1 %	$7,773,087		15.0 %

(1) Excludes $2.6 billion of RPL/NPL MBS. Refer to table below for further information on RPL/NPL MBS.
(2) Does not include principal payments receivable of $669,000.
(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 and/or lifetime caps. The months to reset do not reflect scheduled amortization or prepayments.
(4) 3 month average CPR weighted by positions as of the 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.

The following table presents certain information about our RPL/NPL MBS portfolio at June 30, 2016:

	Fair Value	Net Coupon	Months to Step-Up (1)	Current Credit Support (2)	Original Credit Support	3 Month Average Bond CPR (3)
(Dollars in Thousands)						
Re-Performing MBS	$485,319	3.71 %	13	47 %	40 %	20.1 %
Non-Performing MBS	2,153,687	3.87	23	48	47	26.6
Total RPL/NPL MBS	$2,639,006	3.84 %	21	48 %	46 %	25.4 %

(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.

At June 30, 2016, our CRT securities had a fair value of $272.6 million and reset monthly based on one-month LIBOR.

84

Table of Contents

The information presented in the following “Shock Table” projects the potential impact of sudden parallel changes in interest rates on our net interest income and portfolio value, including the impact of Swaps, over the next 12 months based on the assets in our investment portfolio at June 30, 2016. All changes in income and value are measured as the percentage change from the projected net interest income and portfolio value under the base interest rate scenario at June 30, 2016.

Shock Table

Change in Interest Rates	Estimated Value of Assets (1)	Estimated Value of Swaps	Estimated Value of Financial Instruments	Change in Estimated Value	Percentage Change in Net Interest Income	Percentage Change in Portfolio Value
(Dollars in Thousands)						
+100 Basis Point Increase	$11,941,810	$(45,114)	$11,896,696	$(75,130)	(7.97)%	(0.63)%
+ 50 Basis Point Increase	$12,026,411	$(88,543)	$11,937,868	$(33,958)	(4.41)%	(0.28)%
Actual at June 30, 2016	$12,103,797	$(131,971)	$11,971,826	$—	—	—
- 50 Basis Point Decrease	$12,173,969	$(175,399)	$11,998,570	$26,744	0.01 %	0.22 %
-100 Basis Point Decrease	$12,236,926	$(218,827)	$12,018,099	$46,273	(6.96)%	0.39 %

(1) Such assets include MBS and CRT securities, residential whole loans, cash and cash equivalents and restricted cash.

Certain assumptions have been made in connection with the calculation of the information set forth in the Shock Table and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. The base interest rate scenario assumes interest rates at June 30, 2016. The analysis presented utilizes assumptions and estimates based on management’s judgment and experience. Furthermore, while we generally expect to retain the majority of our assets and the associated interest rate risk to maturity, future purchases and sales of assets could materially change our interest rate risk profile. It should be specifically noted that the information set forth in the above table and all related disclosure constitute forward-looking statements within the meaning of Section 27A of the 1933 Act and Section 21E of the 1934 Act. Actual results could differ significantly from those estimated in the Shock Table above.

The Shock Table quantifies the potential changes in net interest income and portfolio value, which includes the value of our Swaps (which are carried at fair value), should interest rates immediately change (i.e., are shocked). The Shock Table presents the estimated impact of interest rates instantaneously rising 50 and 100 basis points, and falling 50 and 100 basis points. The cash flows associated with our portfolio of MBS for each rate shock are calculated based on assumptions, including, but not limited to, prepayment speeds, yield on replacement assets, the slope of the yield curve and composition of our portfolio. Assumptions made with respect to the interest rate sensitive liabilities (assumed to be repurchase agreement financings and securitized debt) include anticipated interest rates, collateral requirements as a percent of repurchase agreement financings, and the amounts and terms of borrowing. At June 30, 2016, we applied a floor of 0% for all anticipated interest rates included in our assumptions. Due to this floor, it is anticipated that any hypothetical interest rate shock decrease would have a limited positive impact on our funding costs; however, because prepayments speeds are unaffected by this floor, it is expected that any increase in our prepayment speeds (occurring as a result of any interest rate shock decrease or otherwise) could result in an acceleration of premium amortization on our Agency MBS and discount accretion on our Non-Agency MBS and in the reinvestment of principal repayments in lower yielding assets. As a result, because the presence of this floor limits the positive impact of interest rate decrease on our funding costs, hypothetical interest rate shock decreases could cause a decline in the fair value of our financial instruments and our net interest income.

At June 30, 2016, the impact on portfolio value was approximated using estimated effective duration (i.e., the price sensitivity to changes in interest rates), including the effect of Swaps, of 0.50 which is the weighted average of 1.50 for our Agency MBS, 1.11 for our Non-Agency investments, (3.03) for our Swaps and zero for our cash and cash equivalents. Estimated convexity (i.e., the approximate change in duration relative to the change in interest rates) of the portfolio was (0.24), which is the weighted average of (0.67) for our Agency MBS, zero for our Swaps, zero for our Non-Agency MBS and zero for our cash and cash equivalents. The impact on our net interest income is driven mainly by the difference between portfolio yield and cost of funding of our repurchase agreements, which includes the cost and/or benefit from Swaps. Our asset/liability structure is generally such that an increase in interest rates would be expected to result in a decrease in net interest income, as our borrowings are generally shorter in term than our interest-earning assets. When interest rates are shocked, prepayment assumptions are adjusted based on management's expectations along with the results from the prepayment model.

Table of Contents

Credit Risk

Although we do not believe that we are exposed to credit risk in our Agency MBS portfolio, we are exposed to credit risk through our credit-sensitive residential mortgage investments, in particular Legacy Non-Agency MBS and residential whole loans and to a lesser extent our investments in RPL/NPL MBS and CRT securities. Our exposure to credit risk from our credit sensitive investments is discussed in more details below:

Legacy Non-Agency MBS

In the event of the return of less than 100% of par on our Legacy Non-Agency MBS, credit support contained in the MBS deal structures and the discounted purchase prices we paid mitigate our risk of loss on these investments. Over time, we expect the level of credit support remaining in certain MBS deal structures to decrease, which will result in an increase in the amount of realized credit loss experienced by our Legacy Non-Agency MBS portfolio. Our investment process for Legacy Non-Agency MBS involves analysis focused primarily on quantifying and pricing credit risk. When we purchase Legacy Non-Agency MBS, we assign certain assumptions to each of the MBS, including but not limited to, future interest rates, voluntary prepayment rates, mortgage modifications, default rates and loss severities, and generally allocate a portion of the purchase discount as a Credit Reserve which provides credit protection for such securities. As part of our surveillance process, we review our Legacy Non-Agency MBS by tracking their actual performance compared to the securities' expected performance at purchase or, if we have modified our original purchase assumptions, compared to our revised performance expectations. To the extent that actual performance of a Legacy Non-Agency MBS is less favorable than its expected performance, we may revise our performance expectations. As a result, we could reduce the accretable discount on the security and/or recognize an other-than-temporary impairment through earnings, either of which could have a material adverse impact on our operating results.

In evaluating our asset/liability management and Legacy Non-Agency MBS credit performance, we consider the credit characteristics of the mortgage loans underlying our Legacy Non-Agency MBS. The following table presents certain information about our Legacy Non-Agency MBS portfolio at June 30, 2016. Information presented with respect to the weighted average FICO scores and other information aggregated based on information reported at the time of mortgage origination are historical and, as such, do not reflect the impact of the general decline in home prices or changes in borrowers' credit scores or the current use of the mortgaged properties.

Table of Contents

The information in the table below is presented as of June 30, 2016:

	Securities with Average Loan FICO of 715 or Higher (1)			Securities with Average Loan FICO Below 715 (1)			
Year of Securitization (2)	2007	2006	2005 and Prior	2007	2006	2005 and Prior	Total
(Dollars in Thousands)							
Number of securities	93	76	97	27	57	67	417
MBS current face (3)	$1,090,730	$742,232	$805,358	$201,495	$517,447	$582,799	$3,940,061
Total purchase discounts, net (3)	$(289,000)	$(200,185)	$(140,727)	$(65,587)	$(187,012)	$(165,305)	$(1,047,816)
Purchase discount designated as Credit Reserve and OTTI (3)(4)	$(189,247)	$(99,483)	$(66,604)	$(58,362)	$(185,261)	$(125,241)	$(724,198)
Purchase discount designated as Credit Reserve and OTTI as percentage of current face	17.4%	13.4%	8.3%	29.0%	35.8%	21.5%	18.4%
MBS amortized cost (3)	$801,730	$542,047	$664,631	$135,908	$330,435	$417,494	$2,892,245
MBS fair value (3)	$961,311	$646,346	$741,719	$170,001	$429,458	$517,039	$3,465,874
Weighted average fair value to current face	88.1%	87.1%	92.1%	84.4%	83.0%	88.7%	88.0%
Weighted average coupon (5)	4.00%	3.37%	3.29%	4.98%	4.98%	4.40%	3.97%
Weighted average loan age (months) (5)(6)	111	120	134	115	122	134	122
Weighted average current loan size (5)(6)	$513	$497	$312	$385	$260	$247	$390
Percentage amortizing (7)	60%	82%	100%	70%	92%	100%	83%
Weighted average FICO score at origination (5)(8)	731	729	727	705	703	705	721
Owner-occupied loans	90.6%	90.5%	86.2%	84.1%	85.9%	84.0%	87.7%
Rate-term refinancings	28.8%	20.6%	15.0%	21.7%	15.9%	14.7%	20.3%
Cash-out refinancings	35.0%	36.3%	26.6%	44.4%	43.2%	38.4%	35.6%
3 Month CPR (6)	17.9%	15.2%	16.6%	15.7%	17.3%	15.0%	16.5%
3 Month CRR (6)(9)	14.2%	12.2%	13.9%	12.1%	12.9%	11.7%	13.1%
3 Month CDR (6)(9)	4.4%	3.5%	3.1%	4.1%	5.1%	3.9%	4.0%
3 Month loss severity	50.3%	49.3%	39.9%	54.5%	60.3%	53.5%	50.8%

60+ days delinquent (8)	11.6 %	11.4 %	9.7 %	18.2 %	16.8 %	14.5 %	12.6 %
Percentage of always current borrowers (Lifetime) (10)	39.2 %	38.0 %	44.7 %	32.4 %	27.4 %	32.7 %	37.2 %
Percentage of always current borrowers (12M) (11)	78.1 %	77.6 %	77.9 %	69.0 %	67.1 %	68.1 %	74.6 %
Weighted average credit enhancement (8)(12)	0.2 %	0.6 %	4.8 %	0.1 %	1.2 %	3.5 %	1.9 %

(1) FICO score is used by major credit bureaus to indicate a borrower's creditworthiness at time of loan origination.

(2) Information presented based on the initial year of securitization of the underlying collateral. Certain of our Non-Agency MBS have been resecuritized. The historical information presented in the table is based on the initial securitization date and data available at the time of original securitization (and not the date of resecuritization). No information has been updated with respect to any MBS that have been resecuritized.

(3) Excludes Non-Agency MBS issued in 2013, 2014, 2015 and 2016 in which the underlying collateral consists of RPL/NPL MBS. These Non-Agency MBS have a current face of $2.6 billion, amortized cost of $2.6 billion, fair value of $2.6 billion and purchase discounts of $1.9 million at June 30, 2016.

(4) Purchase discounts designated as Credit Reserve and OTTI are not expected to be accreted into interest income.

(5) Weighted average is based on MBS current face at June 30, 2016.

(6) Information provided is based on loans for individual groups owned by us.

(7) Percentage of face amount for which the original mortgage note contractually calls for principal amortization in the current period.

(8) Information provided is based on loans for all groups that provide credit enhancement for MBS with credit enhancement.

(9) CRR represents voluntary prepayments and CDR represents involuntary prepayments.

(10) Percentage of face amount of loans for which the borrower has not been delinquent since origination.

(11) Percentage of face amount of loans for which the borrower has not been delinquent in the last twelve months.

(12) Credit enhancement 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 its credit enhancement is greater than zero. As of June 30, 2016, a total of 286 Non-Agency MBS in our portfolio representing approximately $2.9 billion or 74% of the current face amount of the portfolio had no credit enhancement.

87

Table of Contents

The mortgages securing our Legacy Non-Agency MBS are located in many geographic regions across the United States. The following table presents the five largest geographic concentrations by state of the mortgages collateralizing our Legacy Non-Agency MBS at June 30, 2016:

Property Location	Percent of Interest-Bearing Unpaid Principal Balance	
California	43.6	%
Florida	7.5	%
New York	5.9	%
Virginia	4.0	%
Maryland	3.8	%

RPL/NPL MBS

Our RPL/NPL MBS were purchased primarily through new issue at prices at or around par and represent the senior tranches of the related securitizations. The RPL/NPL MBS are structured with significant credit enhancement (typically approximately 50%) and the subordinate tranches absorb all credit losses (until those tranches are extinguished) and typically receive no cash flow (interest or principal) until the senior tranche is paid off. Prior to purchase, we analyze the deal structure in order to assess the associated credit risk. Subsequent to purchase, the ongoing credit risk associated with the deal is evaluated by analyzing the extent to which actual credit losses occur that result in a reduction in the amount of subordination enjoyed by our bond. Based on the recent performance of the collateral underlying our RPL/NPL MBS and current subordination levels, we do not believe that we are currently exposed to significant risk of credit loss on these investments.

CRT Securities

We are exposed to potential credit losses from our investments in CRT securities issued by Fannie Mae and Freddie Mac. While CRT securities are debt obligations of these GSEs, payment of principal on these securities is not guaranteed. As an investor in a CRT security, we may incur a loss if the loans in the associated reference pool experience delinquencies exceeding specified thresholds or other specified credit events occur. We assess the credit risk associated with our investment in CRT securities by assessing the current performance of the loans in the associated reference pool.

Residential Whole Loans

We are also exposed to credit risk from our investments in residential whole loans. Our investment process for residential whole loans is generally similar to that used for Legacy Non-Agency MBS and is likewise focused on quantifying and pricing credit risk. Consequently, these loans are acquired at purchase prices that are generally discounted (often substantially) to the contractual loan balances based on a number of factors, including the impaired credit history of the borrower and the value of the collateral securing the loan. In addition, as the owner of the servicing rights, our process is also focused on selecting a sub-servicer with the appropriate expertise to mitigate losses and maximize our overall return. This involves, among other things, performing due diligence on the sub-servicer prior to their engagement as well as ongoing oversight and surveillance. To the extent that loan delinquencies and defaults are higher than our expectation at the time the loans were purchased, the discounted purchase price at which the asset is acquired is intended to provide a level of protection against financial loss.

The following table presents the five largest geographic concentrations by state of our credit sensitive residential whole loan portfolio at June 30, 2016:

Property Location	Percent of Interest-Bearing Unpaid Principal Balance	
California	21.6	%
New York	14.9	%
New Jersey	7.8	%
Florida	7.5	%
Maryland	5.8	%

88

Explanation of Responses:

Table of Contents

Liquidity Risk

The primary liquidity risk we face arises from financing long-maturity assets with shorter-term borrowings primarily in the form of repurchase agreement financings. We pledge residential mortgage assets and cash to secure our repurchase agreements, FHLB advances and Swaps. At June 30, 2016, we had access to various sources of liquidity which we estimate to be in excess of $522.7 million, an amount which includes (i) $182.8 million of cash and cash equivalents, (ii) $220.2 million in estimated financing available from unpledged Agency MBS and other Agency MBS collateral that are currently pledged in excess of contractual requirements, and (iii) $119.7 million in estimated financing available from currently unpledged Non-Agency MBS. Should the value of our residential mortgage assets pledged as collateral suddenly decrease, margin calls under our repurchase agreements would likely increase, causing an adverse change in our liquidity position. Additionally, if one or more of our financing counterparties chose not to provide ongoing funding, our ability to finance our long-maturity assets would decline or be available on possibly less advantageous terms. As such, we cannot assure you that we will always be able to roll over our repurchase agreement financings and other advances. Further, should market liquidity tighten, our repurchase agreement counterparties may increase our margin requirements on new financings, including repurchase agreement borrowings that we roll with the same counterparty, reducing our ability to use leverage.

Prepayment Risk

Premiums arise when we acquire a MBS at a price in excess of the aggregate principal balance of the mortgages securing the MBS (i.e., par value). Conversely, discounts arise when we acquire a MBS at a price below the aggregate principal balance of the mortgages securing the MBS or when we acquire residential whole loans at a price below their aggregate principal balance. Premiums paid on our MBS are amortized against interest income and accretable purchase discounts on our MBS are accreted to interest income. Purchase premiums on our MBS, which are primarily carried on our Agency MBS, are amortized against interest income over the life of each security using the effective yield method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the IRR/interest income earned on these assets. Generally, if prepayments on Non-Agency MBS and residential whole loans purchased at significant discounts and not accounted for at fair value are less than anticipated, we expect that the income recognized on these assets will be reduced and impairments and/or loan loss reserves may result.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Management, under the direction of its Chief Executive Officer and Chief Financial Officer, is responsible for maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the 1934 Act that are designed to ensure that information required to be disclosed in reports filed or submitted under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Company’s Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Quarterly Report on Form 10-Q, management reviewed and evaluated the Company’s disclosure controls and procedures. The evaluation was performed under the direction of the Company’s Chief Executive Officer and Chief Financial Officer to determine the effectiveness, as of June 30, 2016, of the design and operation of the Company’s disclosure controls and procedures. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures, as designed and implemented, were effective as of June 30, 2016. Notwithstanding the foregoing, a control system, no matter how well designed, implemented and operated, can provide only reasonable, not absolute, assurance that it will

detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company’s current periodic reports.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting that occurred during the quarter ended June 30, 2016 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings to which we are a party or any of our assets are subject.

Item 1A. Risk Factors

For a discussion of the Company's risk factors, see Part 1, Item 1A. "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015. There are no material changes from the risk factors set forth in such Annual Report on Form 10-K. However, the risks and uncertainties that the Company faces are not limited to those set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Additional risks and uncertainties not currently known to the Company (or that it currently believes to be immaterial) may also adversely affect the Company's business and the trading price of our securities.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities

As previously disclosed, in August 2005, the Company's Board authorized a Repurchase Program, to repurchase up to 4.0 million shares of the Company's outstanding common stock under the Repurchase Program. The Board reaffirmed such authorization in May 2010. In December, 2013, the Company's Board increased the number of shares authorized for repurchase to an aggregate of 10.0 million shares (under which approximately 6.6 million shares remain available for repurchase). This authorization does not have an expiration date and, at present, there is no intention to modify or otherwise rescind such authorization. Subject to applicable securities laws, repurchases of common stock under the Repurchase Program may be made at times and in amounts as we deem appropriate (including, in our discretion, through the use of one or more plans adopted under Rule 10b-5-1 promulgated under the 1934 Act), using available cash resources. Shares of common stock repurchased by the Company under the Repurchase Program are cancelled and, until reissued by the Company, are deemed to be authorized but unissued shares of the Company's common stock. The Repurchase Program may be suspended or discontinued by the Company at any time and without prior notice.

The Company engaged in no share repurchase activity during the second quarter of 2016 pursuant to the Repurchase Program. The Company did, however, withhold restricted shares (under the terms of grants under our Equity Plan) to offset tax withholding obligations that occur upon the vesting and release of restricted stock awards and/or RSUs. The following table presents information with respect to (i) such withheld restricted shares and (ii) eligible shares remaining for repurchase under the Repurchase Program:

Month		Total Number of Shares Purchased	Weighted Average Price Paid Per Share (1)	Total Number of Shares Repurchased as Part of Publicly Announced Repurchase Program or Employee Plan	Maximum Number of Shares that May Yet be Purchased Under the Repurchase Program or Employee Plan
April 1-30, 2016:					
Repurchase Program	(2)	—	$ —	—	6,616,355
Employee Transactions	(3)	—	—	N/A	N/A
May 1-31, 2016:					
Repurchase Program	(2)	—	—	—	6,616,355
Employee Transactions	(3)	—	—	N/A	N/A

June 1-30, 2016:					
Repurchase Program	(2)	—	—	—	6,616,355
Employee Transactions	(3)	8,118	$ 7.27	N/A	N/A
Total Repurchase Program	(2)	—	$ —	—	6,616,355
Total Employee Transactions	(3)	8,118	$ 7.27	N/A	N/A

(1) Includes brokerage commissions.
(2) As of June 30, 2016, the Company had repurchased an aggregate of 3,383,645 shares under the Repurchase Program.
(3) The Company’s Equity Plan provides that the value of the shares delivered or withheld be based on the price of its common stock on the date the relevant transaction occurs.

90

Table of Contents

Item 6. Exhibits

The list of exhibits required to be filed as exhibits to this report are listed on page E-1 hereof, under “Exhibit Index,” which is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 3, 2016 MFA FINANCIAL, INC.
(Registrant)

By: /s/ William S. Gorin
William S. Gorin
Chief Executive Officer

By: /s/ Stephen D. Yarad
Stephen D. Yarad
Chief Financial Officer
(Principal Financial Officer)

Table of Contents

EXHIBIT INDEX

The following exhibits are filed as part of this Quarterly Report:

Exhibit	Description
10.1	Modification to Compensation Payable to the Non-Executive Chairman of the Board.
31.1	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

*These interactive data files are furnished and deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.