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

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2017

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 1-13991

MFA FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Maryland	**13-3974868**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
350 Park Avenue, 20th Floor, New York, New York	**10022**
(Address of principal executive offices)	(Zip Code)

(212) 207-6400
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last period)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o

396,943,263 shares of the registrant's common stock, $0.01 par value, were outstanding as of October 27, 2017.

MFA FINANCIAL, INC.

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MFA FINANCIAL, INC.
CONSOLIDATED BALANCE SHEET

(In Thousands Except Per Share Amounts)	September 30, 2017	December 31, 2016
	(Unaudited)	
Assets:		
Mortgage-backed securities (“MBS”) and credit risk transfer (“CRT”) securities:		
Agency MBS, at fair value ($2,911,353 and $3,540,401 pledged as collateral, respectively)	$ 3,019,304	$ 3,738,497
Non-Agency MBS, at fair value ($2,853,891 and $4,751,419 pledged as collateral, respectively) *(1)*	3,911,660	5,684,836
CRT securities, at fair value ($530,833 and $357,488 pledged as collateral, respectively)	653,633	404,850
Mortgage servicing rights (“MSR”) related assets ($412,674 and $226,780 pledged as collateral, respectively)	411,840	226,780
Residential whole loans, at carrying value ($347,906 and $427,880 pledged as collateral, respectively) *(2)*	639,216	590,540
Residential whole loans, at fair value ($903,494 and $734,331 pledged as collateral, respectively) *(2)*	1,103,518	814,682
Securities obtained and pledged as collateral, at fair value	507,318	510,767
Cash and cash equivalents	608,173	260,112
Restricted cash	15,440	58,463
Other assets	233,357	194,495
Total Assets	$ 11,103,459	$ 12,484,022
Liabilities:		
Repurchase agreements and other advances	$ 6,871,443	$ 8,687,268
Obligation to return securities obtained as collateral, at fair value	507,318	510,767
8% Senior Notes due 2042 (“Senior Notes”)	96,763	96,733
Payable for unsettled MBS and residential whole loans purchases	124,006	—
Other liabilities	246,278	155,352
Total Liabilities	$ 7,845,808	$ 9,450,120
Commitments and contingencies (See Note 11)		
Stockholders’ Equity:		
Preferred stock, $.01 par value; 7.50% Series B cumulative redeemable; 8,050 shares authorized; 8,000 shares issued and outstanding ($200,000 aggregate liquidation preference)	$ 80	$ 80
Common stock, $.01 par value; 886,950 shares authorized; 396,939 and 371,854 shares issued and outstanding, respectively	3,969	3,719
Additional paid-in capital, in excess of par	3,219,398	3,029,062
Accumulated deficit	(596,022)	(572,641)
Accumulated other comprehensive income	630,226	573,682
Total Stockholders’ Equity	$ 3,257,651	$ 3,033,902
Total Liabilities and Stockholders’ Equity	$ 11,103,459	$ 12,484,022

(1) Includes approximately $174.4 million of Non-Agency MBS transferred to consolidated variable interest entities (“VIEs”) at December 31, 2016. Such assets can be used only to settle the obligations of each respective VIE.

(2) Includes approximately $131.3 million of Residential whole loans, at carrying value and $40.4 million of Residential whole loans, at fair value transferred to a consolidated VIE at September 30, 2017. Such assets can be used only to settle the obligations of the VIE.

The accompanying notes are an integral part of the consolidated financial statements.

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In Thousands, Except Per Share Amounts)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest Income:				
Agency MBS	$ 15,533	$ 18,957	$ 50,014	$ 64,546
Non-Agency MBS	63,252	83,638	212,728	253,555
CRT securities	8,676	3,983	22,898	9,897
MSR related assets	7,194	—	17,833	—
Residential whole loans held at carrying value	9,026	5,917	26,219	16,112
Cash and cash equivalent investments	1,452	221	2,854	531
Interest Income	$ 105,133	$ 112,716	$ 332,546	$ 344,641
Interest Expense:				
Repurchase agreements and other advances	$ 46,303	$ 46,158	$ 141,444	$ 137,127
Senior Notes and other interest expense	2,972	2,009	7,202	6,360
Interest Expense	$ 49,275	$ 48,167	$ 148,646	$ 143,487
Net Interest Income	$ 55,858	$ 64,549	$ 183,900	$ 201,154
Other-Than-Temporary Impairments:				
Total other-than-temporary impairment losses	$ —	$ (1,255)	$ (63)	$ (1,255)
Portion of loss recognized in/(reclassed from) other comprehensive income	—	770	(969)	770
Net Impairment Losses Recognized in Earnings	$ —	$ (485)	$ (1,032)	$ (485)
Other Income, net:				
Net gain on residential whole loans held at fair value	$ 18,679	$ 19,639	$ 48,660	$ 47,729
Net gain on sales of MBS and U.S. Treasury securities	14,933	7,083	30,530	26,069
Other, net	(4,515)	7,179	14,844	9,844
Other Income, net	$ 29,097	$ 33,901	$ 94,034	$ 83,642
Operating and Other Expense:				
Compensation and benefits	$ 10,892	$ 7,078	$ 26,258	$ 21,507
Other general and administrative expense	4,081	3,709	14,060	12,508
Loan servicing and other related operating expenses	6,177	4,167	14,785	10,265
Operating and Other Expense	$ 21,150	$ 14,954	$ 55,103	$ 44,280
Net Income	$ 63,805	$ 83,011	$ 221,799	$ 240,031
Less Preferred Stock Dividends	3,750	3,750	11,250	11,250
Net Income Available to Common Stock and Participating Securities	$ 60,055	$ 79,261	$ 210,549	$ 228,781
Earnings per Common Share - Basic and Diluted	$ 0.15	$ 0.21	$ 0.54	$ 0.61
Dividends Declared per Share of Common Stock	$ 0.20	$ 0.20	$ 0.60	$ 0.60

The accompanying notes are an integral part of the consolidated financial statements.

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2017**	**2016**	**2017**	**2016**
Net income	$ 63,805	$ 83,011	$ 221,799	$ 240,031
Other Comprehensive Income/(Loss):				
Unrealized (loss)/gain on Agency MBS, net	(3,032)	(6,941)	(22,241)	17,857
Unrealized gain on Non-Agency MBS, net	10,020	71,291	93,429	106,906
Reclassification adjustment for MBS sales included in net income	(14,935)	(6,829)	(30,283)	(26,795)
Reclassification adjustment for other-than-temporary impairments included in net income	—	(485)	(1,032)	(485)
Derivative hedging instrument fair value changes, net	5,791	22,769	16,671	(39,803)
Other Comprehensive Income/(Loss)	(2,156)	79,805	56,544	57,680
Comprehensive income before preferred stock dividends	$ 61,649	$ 162,816	$ 278,343	$ 297,711
Dividends declared on preferred stock	(3,750)	(3,750)	(11,250)	(11,250)
Comprehensive Income Available to Common Stock and Participating Securities	$ 57,899	$ 159,066	$ 267,093	$ 286,461

The accompanying notes are an integral part of the consolidated financial statements.

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

	Nine Months Ended September 30, 2017							
	Preferred Stock 7.50% Series B Cumulative Redeemable - Liquidation Preference $25.00 per Share		Common Stock					
(In Thousands, Except Per Share Amounts)	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2016	8,000	$ 80	371,854	$ 3,719	$ 3,029,062	$ (572,641)	$ 573,682	$ 3,033,902
Net income	—	—	—	—	—	221,799	—	221,799
Issuance of common stock, net of expenses *(1)*	—	—	25,726	250	190,265	—	—	190,515
Repurchase of shares of common stock *(1)*	—	—	(641)	—	(5,158)	—	—	(5,158)
Equity based compensation expense	—	—	—	—	5,209	—	—	5,209
Accrued dividends attributable to stock-based awards	—	—	—	—	20	—	—	20
Dividends declared on common stock	—	—	—	—	—	(233,244)	—	(233,244)
Dividends declared on preferred stock	—	—	—	—	—	(11,250)	—	(11,250)
Dividends attributable to dividend equivalents	—	—	—	—	—	(686)	—	(686)
Change in unrealized gains on MBS, net	—	—	—	—	—	—	39,873	39,873
Derivative hedging instrument fair value changes, net	—	—	—	—	—	—	16,671	16,671
Balance at September 30, 2017	8,000	$ 80	396,939	$ 3,969	$ 3,219,398	$ (596,022)	$ 630,226	$ 3,257,651

	Nine Months Ended September 30, 2016							
	Preferred Stock 7.50% Series B Cumulative Redeemable - Liquidation Preference $25.00 per Share		Common Stock					
(In Thousands, Except Per Share Amounts)	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2015	8,000	$ 80	370,584	$ 3,706	$ 3,019,956	$ (572,332)	$ 515,851	$ 2,967,261
Net income	—	—	—	—	—	240,031	—	240,031
Issuance of common stock, net of expenses *(1)*	—	—	716	5	936	—	—	941
Repurchase of shares of common stock *(1)*	—	—	(217)	—	(1,481)	—	—	(1,481)
Equity based compensation expense	—	—	—	—	4,140	—	—	4,140
Accrued dividends attributable to stock-based awards	—	—	—	—	(518)	—	—	(518)
Dividends declared on common stock	—	—	—	—	—	(222,669)	—	(222,669)
Dividends declared on preferred stock	—	—	—	—	—	(11,250)	—	(11,250)
Dividends attributable to dividend equivalents	—	—	—	—	—	(697)	—	(697)
Change in unrealized gains on MBS, net	—	—	—	—	—	—	97,483	97,483
Derivative hedging instruments fair value changes, net	—	—	—	—	—	—	(39,803)	(39,803)
Balance at September 30, 2016	8,000	$ 80	371,083	$ 3,711	$ 3,023,033	$ (566,917)	$ 573,531	$ 3,033,438

(1) For the nine months ended September 30, 2017 and 2016, includes approximately $5.2 million (640,748 shares) and $1.5 million (217,464 shares), respectively surrendered for tax purposes related to equity-based compensation awards.

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In Thousands)	Nine Months Ended September 30, 2017	2016
Cash Flows From Operating Activities:		
Net income	$ 221,799	$ 240,031
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of MBS and U.S. Treasury securities	(30,530)	(26,069)
Gain on sales of real estate owned	(2,844)	(1,840)
Gain on liquidation of residential whole loans	(7,178)	—
Other-than-temporary impairment charges	1,032	485
Accretion of purchase discounts on MBS and CRT securities, residential whole loans and MSR related assets	(67,065)	(64,093)
Amortization of purchase premiums on MBS and CRT securities	23,766	27,748
Depreciation and amortization on real estate, fixed assets and other assets	1,199	746
Equity-based compensation expense	5,369	4,143
Unrealized gain on residential whole loans at fair value	(12,499)	(25,529)
Increase in other assets and other	(3,827)	(47,761)
Decrease in other liabilities	(10,248)	(9,025)
Net cash provided by operating activities	$ 118,974	$ 98,836
Cash Flows From Investing Activities:		
Principal payments on MBS, CRT securities and MSR related assets	$ 3,387,673	$ 2,581,507
Proceeds from sales of MBS and U.S. Treasury securities	222,143	65,068
Purchases of MBS, CRT securities and MSR related assets	(1,425,717)	(1,398,606)
Purchases of residential whole loans and capitalized advances	(391,613)	(367,740)
Principal payments on residential whole loans	105,549	70,729
Proceeds from sales of real estate owned	51,834	21,833
Purchases of real estate owned and capital improvements	(17,224)	—
Redemption of Federal Home Loan Bank stock	10,422	49,595
Additions to leasehold improvements, furniture and fixtures	(596)	(380)
Net cash provided by investing activities	$ 1,942,471	$ 1,022,006
Cash Flows From Financing Activities:		
Principal payments on repurchase agreements and other advances	$ (57,118,263)	$ (62,376,619)
Proceeds from borrowings under repurchase agreements and other advances	55,302,002	61,685,547
Proceeds from issuance of securitized debt	147,847	—
Principal payments on securitized debt	(9,140)	(22,057)
Payments made for securitization related costs	(1,520)	—
Payments made for margin calls and settlements on repurchase agreements and interest rate swap agreements (“Swaps”)	(51,111)	(179,028)
Proceeds from reverse margin calls and settlements on repurchase agreements and Swaps	66,517	128,700
Proceeds from issuances of common stock	190,516	941
Dividends paid on preferred stock	(11,250)	(11,250)
Dividends paid on common stock and dividend equivalents	(228,982)	(223,385)
Net cash used in financing activities	$ (1,713,384)	$ (997,151)
Net increase in cash and cash equivalents	$ 348,061	$ 123,691
Cash and cash equivalents at beginning of period	$ 260,112	$ 165,007
Cash and cash equivalents at end of period	$ 608,173	$ 288,698
Non-cash Investing and Financing Activities:		
Net increase/(decrease) in securities obtained as collateral/obligation to return securities obtained as collateral	$ 131,930	$ (13,450)
Transfer from residential whole loans to real estate owned	$ 97,388	$ 69,803
Dividends and dividend equivalents declared and unpaid	$ 79,605	$ 74,556

The accompanying notes are an integral part of the consolidated financial statements.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

1. Organization

MFA Financial, Inc. (the "Company") was incorporated in Maryland on July 24, 1997 and began operations on April 10, 1998. The Company has elected to be treated as a real estate investment trust ("REIT") for U.S. federal income tax purposes. In order to maintain its qualification as a REIT, the Company must comply with a number of requirements under federal tax law, including that it must distribute at least 90% of its annual REIT taxable income to its stockholders. The Company has elected to treat certain of its subsidiaries as a taxable REIT subsidiary ("TRS"). In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate related business. (See Notes 2(p) and 12)

2. Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The interim unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted according to these SEC rules and regulations. Management believes that the disclosures included in these interim unaudited consolidated financial statements are adequate to make the information presented not misleading. The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial condition of the Company at September 30, 2017 and results of operations for all periods presented have been made. The results of operations for the three and nine months ended September 30, 2017 should not be construed as indicative of the results to be expected for the full year.

The accompanying consolidated financial statements of the Company have been prepared on the accrual basis of accounting in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the Company's estimates contemplate current conditions and how it expects them to change in the future, it is reasonably possible that actual conditions could differ from those estimates, which could materially impact the Company's results of operations and its financial condition. Management has made significant estimates in several areas, including other-than-temporary impairment ("OTTI") on MBS (See Note 3), valuation of MBS, CRT securities and MSR related assets (See Notes 3 and 15), income recognition and valuation of residential whole loans (See Notes 4 and 15), valuation of derivative instruments (See Notes 5(b) and 15) and income recognition on certain Non-Agency MBS (defined below) purchased at a discount. (See Note 3) In addition, estimates are used in the determination of taxable income used in the assessment of REIT compliance and contingent liabilities for related taxes, penalties and interest. (See Note 2(p)) Actual results could differ from those estimates.

The Company has one reportable segment as it manages its business and analyzes and reports its results of operations on the basis of one operating segment; investing, on a leveraged basis, in residential mortgage assets.

The consolidated financial statements of the Company include the accounts of all subsidiaries; all intercompany accounts and transactions have been eliminated. In addition, the Company consolidates entities established to facilitate its loan securitization transaction as well as related to the acquisition of residential whole loans. Certain prior period amounts have been reclassified to conform to the current period presentation.

(b) MBS (including Non-Agency MBS transferred to consolidated VIEs) and CRT Securities

The Company has investments in residential MBS that are issued or guaranteed as to principal and/or interest by a federally chartered corporation, such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or an agency of the U.S. Government, such as the Government National Mortgage Association ("Ginnie Mae") (collectively, "Agency MBS"), and residential MBS that are not guaranteed by any agency of the U.S. Government or any federally chartered corporation ("Non-Agency MBS"). In addition, the Company has investments in CRT securities that are issued by Fannie Mae and Freddie Mac. The coupon payments on CRT securities are paid by Fannie Mae and Freddie Mac and the principal payments received are based on the performance of loans in a reference pool of previously securitized MBS. As the loans in the underlying reference pool are paid, the principal balance of the CRT securities is paid. As an investor in a CRT security, the Company may incur a loss if certain defined credit events occur, including, for certain CRT securities, if the loans in the reference pool experience delinquencies exceeding specified thresholds.

Designation

The Company generally intends to hold its MBS until maturity; however, from time to time, it may sell any of its securities as part of the overall management of its business. As a result, all of the Company's MBS are designated as "available-for-sale" ("AFS") and, accordingly, are carried at their fair value with unrealized gains and losses excluded from earnings (except when an OTTI is recognized, as discussed below) and reported in Accumulated other comprehensive income/(loss) ("AOCI"), a component of Stockholders' Equity.

Upon the sale of an AFS security, any unrealized gain or loss is reclassified out of AOCI to earnings as a realized gain or loss using the specific identification method.

The Company has elected the fair value option for certain of its CRT securities as it considers this method of accounting to more appropriately reflect the risk sharing structure of these securities. Such securities are carried at their fair value with changes in fair value included in earnings for the period and reported in Other Income, net on the Company's consolidated statements of operations.

Revenue Recognition, Premium Amortization and Discount Accretion

Interest income on securities is accrued based on the outstanding principal balance and their contractual terms. Premiums and discounts associated with Agency MBS and Non-Agency MBS assessed as high credit quality at the time of purchase are amortized into interest income over the life of such securities using the effective yield method. Adjustments to premium amortization are made for actual prepayment activity.

Interest income on the Non-Agency MBS that were purchased at a discount to par value and/or are considered to be of less than high credit quality is recognized based on the security's effective interest rate which is the security's internal rate of return ("IRR"). The IRR is determined using management's estimate of the projected cash flows for each security, which are based on the Company's observation of current information and events and include assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the IRR/ interest income recognized on these securities or in the recognition of OTTIs. (See Note 3)

Based on the projected cash flows from the Company's Non-Agency MBS purchased at a discount to par value, a portion of the purchase discount may be designated as non-accretable purchase discount ("Credit Reserve"), which effectively mitigates the Company's risk of loss on the mortgages collateralizing such MBS and is not expected to be accreted into interest income. The amount designated as Credit Reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a Credit Reserve is more favorable than forecasted, a portion of the amount designated as Credit Reserve may be reallocated to accretable discount and recognized into interest income over time. Conversely, if the performance of a security with a Credit Reserve is less favorable than forecasted, the amount designated as Credit Reserve may be increased, or impairment charges and write-downs of such securities to a new cost basis could result.

Determination of Fair Value for MBS and CRT Securities

In determining the fair value of the Company's MBS and CRT securities, management considers a number of observable market data points, including prices obtained from pricing services, brokers and repurchase agreement counterparties, dialogue with market participants, as well as management's observations of market activity. (See Note 15)

Impairments/OTTI

When the fair value of an AFS security is less than its amortized cost at the balance sheet date, the security is considered impaired. The Company assesses its impaired securities on at least a quarterly basis and designates such impairments as either "temporary" or "other-than-temporary." If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then the Company must recognize an OTTI through charges to earnings equal to the entire difference between the investment's amortized cost and its fair value at the balance sheet date. If the Company does not expect to sell an other-than-temporarily impaired security, only the portion of the OTTI related to credit losses is recognized through charges to earnings with the remainder recognized through AOCI on the consolidated balance sheets. Impairments recognized through other comprehensive income/(loss) ("OCI") do not impact earnings. Following the recognition of an OTTI through earnings, a new cost basis is established for the security and may not be adjusted for subsequent recoveries in fair value through earnings. However, OTTIs recognized through charges to earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an OTTI exists and, if so, the amount of credit impairment recognized in earnings is subjective, as such determinations are based on factual information available at the time of assessment as well as the Company's estimates of the future performance and cash flow projections. As a result, the timing and amount of OTTIs constitute material estimates that are susceptible to significant change. (See Note 3)

Non-Agency MBS that are assessed to be of less than high credit quality and on which impairments are recognized have experienced, or are expected to experience, credit-related adverse cash flow changes. The Company's estimate of cash flows for its Non-Agency MBS is based on its review of the underlying mortgage loans securing the MBS. The Company considers information available about the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, Fair Isaac Corporation ("FICO") scores at loan origination, year of origination, loan-to-value ratios ("LTVs"), geographic concentrations, as well as reports by credit rating agencies, such as Moody's Investors Services, Inc. ("Moody's"), Standard & Poor's Corporation ("S&P") or Fitch, Inc. (collectively with Moody's and S&P, "Rating Agencies"), general market assessments, and dialogue with market participants. As a result, significant judgment is used in the Company's analysis to determine the expected cash flows for its Non-Agency MBS. In determining the OTTI related to credit losses for securities that were purchased at significant discounts to par and/or are considered to be of less than high credit quality, the Company compares the present value of the remaining cash flows expected to be collected at the purchase date (or last date previously revised) against the present value of the cash flows expected to be collected at the current financial reporting date. The discount rate used to calculate the present value of expected future cash flows is the current yield used for income recognition purposes. Impairment assessment for Non-Agency MBS and CRT Securities that were purchased at prices close to par and/or are otherwise considered to be of high credit quality involves comparing the present value of the remaining cash flows expected to be collected against the amortized cost of the security at the assessment date. The discount rate used to calculate the present value of the expected future cash flows is based on the instrument's IRR.

Balance Sheet Presentation

The Company's MBS and CRT Securities pledged as collateral against repurchase agreements, Federal Home Loan Bank advances and Swaps are included on the consolidated balance sheets with the fair value of the securities pledged disclosed parenthetically. Purchases and sales of securities are recorded on the trade date.

(c) MSR Related Assets

The Company has investments in financial instruments whose cash flows are considered to be largely dependent on underlying MSRs that either directly or indirectly act as collateral for the investment. These financial instruments, which are referred to as MSR related assets are discussed in more detail below. The Company's MSR related assets pledged as collateral against repurchase agreements are included in the consolidated balance sheets with the amounts pledged disclosed parenthetically. Purchases and sales of MSR related assets are recorded on the trade date. (See Notes 3, 6, 7 and 15)

Term Notes Backed by MSR Related Collateral

The Company has invested in term notes that are issued by special purpose vehicles ("SPV") that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. The Company considers payment of principal and interest on these term notes to be largely dependent on the cash flows generated by the underlying MSRs as this impacts the cash flows available to the SPV that issued the term notes. Credit risk borne by the holders of the term notes is also mitigated by structural credit support in the form of over-collateralization. Credit support is also provided by a corporate guarantee from the ultimate parent or sponsor of the SPV that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the underlying MSRs be insufficient.

The Company's term notes backed by MSR related collateral are reported at fair value on the Company's consolidated balance sheets with unrealized gains and losses excluded from earnings and reported in AOCI. Interest income is recognized on an accrual basis on the Company's consolidated statements of operations. The Company's valuation process for such notes considers a number of factors, including a comparable bond analysis performed by a third-party pricing service which involves determining a pricing spread at issuance of the term note. The pricing spread is used at each subsequent valuation date to determine an implied yield to maturity of the term note, which is then used to derive an indicative market value for the security. This indicative market value is further reviewed by the Company and may be adjusted to ensure it reflects a realistic exit price at the valuation date given the structural features of these securities. Other factors taken into consideration include indicative values provided by repurchase agreement counterparties, estimated changes in fair value of the related underlying MSR collateral and the financial performance of the ultimate parent or sponsoring entity of the issuer, which has provided a guarantee that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the related underlying MSR collateral be insufficient.

Corporate Loan

The Company has entered into a loan agreement with an entity that originates loans and owns the related MSRs. Under the terms of loan agreement, the Company has committed to lend $130.0 million of which approximately $101.1 million was drawn at September 30, 2017. The loan is secured by certain U.S. Government, Agency and private-label MSRs, as well as other unencumbered assets owned by the borrower. The term loan is recorded on the Company's consolidated balance sheets at the drawn amount, on which interest income is recognized on an accrual basis on the Company's consolidated statements of operations. Commitment fees received on the undrawn amount are deferred and recognized as interest income over the remaining loan term at the time of draw. At the end of the commitment period, any remaining deferred commitment fees will be recorded as Other Income on the Company's consolidated statements of operations. The Company evaluates the recoverability of the loan on a quarterly basis by considering various factors, including the current status of the loan, changes in fair value of the MSRs that secure the loan and the recent financial performance of the borrower.

(d) Residential Whole Loans (including Residential Whole Loans transferred to consolidated VIEs)

Residential whole loans included in the Company's consolidated balance sheets are comprised of pools of fixed and adjustable rate residential mortgage loans acquired through consolidated trusts in secondary market transactions generally at discounted purchase prices. The accounting model utilized by the Company is determined at the time each loan package is initially acquired and is generally based on the delinquency status of the majority of the underlying borrowers in the package at acquisition. The accounting model described below under *"Residential Whole Loans at Carrying Value"* is typically utilized by the Company for loans where the underlying borrower has a delinquency status of less than 60 days at the acquisition date. The accounting model described below under *"Residential Whole Loans at Fair Value"* is typically utilized by the Company for loans where the underlying borrower has a delinquency status of 60 days or more at the acquisition date. The accounting model initially applied is not subsequently changed.

The Company's residential whole loans pledged as collateral against repurchase agreements are included in the consolidated balance sheets with amounts pledged disclosed parenthetically. Purchases and sales of residential whole loans are recorded on the trade date, with amounts recorded reflecting management's current estimate of assets that will be acquired or disposed at the closing of the transaction. This estimate is subject to revision at the closing of the transaction, pending the outcome of due diligence performed prior to closing. Recorded amounts of residential whole loans for which the closing of the purchase transaction is yet to occur are not eligible to be pledged as collateral against any repurchase agreement financing until the closing of the purchase transaction. (See Notes 4, 6, 7, 15 and 16)

Residential Whole Loans at Carrying Value

Notwithstanding that the majority of these loans are considered to be performing substantially in accordance with their current contractual terms and conditions, the Company has elected to account for these loans as credit impaired as they were acquired at discounted prices that reflect, in part, the impaired credit history of the borrower. Substantially all of the borrowers have previously experienced payment delinquencies and the amount owed on the mortgage loan may exceed the value of the property pledged as collateral. Consequently, the Company has assessed that these loans have a higher likelihood of default than newly originated mortgage loans with LTVs of 80% or less to creditworthy borrowers. The Company believes that amounts paid to acquire these loans represent fair market value at the date of acquisition. Such loans are initially recorded at the purchase price with no allowance for loan losses. Subsequent to acquisition, the recorded amount reflects the original investment amount, plus accretion of interest income, less principal and interest cash flows received. These loans are presented on the Company’s consolidated balance sheets at carrying value, which reflects the recorded amount reduced by any allowance for loan losses established subsequent to acquisition.

Under the application of this accounting model the Company may aggregate into pools loans acquired in the same fiscal quarter that are assessed as having similar risk characteristics. For each pool established, or on an individual loans basis for loans not aggregated into pools, the Company estimates at acquisition and periodically on at least a quarterly basis, the principal and interest cash flows expected to be collected. The difference between the cash flows expected to be collected and the carrying amount of the loans is referred to as the “accretable yield.” This amount is accreted as interest income over the life of the loans using an effective interest rate (level yield) methodology. Interest income recorded each period reflects the amount of accretable yield recognized and not the coupon interest payments received on the underlying loans. The difference between contractually required principal and interest payments and the cash flows expected to be collected is referred to as the “non-accretable difference,” and includes estimates of both the effect of prepayments and expected credit losses over the life of the underlying loans.

A decrease in expected cash flows in subsequent periods may indicate impairment at the pool and/or individual loan level, thus requiring the establishment of an allowance for loan losses by a charge to the provision for loan losses. The allowance for loan losses represents the present value of cash flows expected at acquisition, adjusted for any increases due to changes in estimated cash flows, that are subsequently no longer expected to be received at the relevant measurement date. A significant increase in expected cash flows in subsequent periods first reduces any previously recognized allowance for loan losses and then will result in a recalculation in the amount of accretable yield. The adjustment of accretable yield due to a significant increase in expected cash flows is accounted for prospectively as a change in estimate and results in reclassification from nonaccretable difference to accretable yield.

Residential Whole Loans at Fair Value

Certain of the Company’s residential whole loans are presented at fair value on its consolidated balance sheets as a result of a fair value election made at time of acquisition. Given the significant uncertainty associated with estimating the timing of and amount of cash flows associated with these loans that will be collected, and that the cash flows ultimately collected may be dependent on the value of the property securing the loan, the Company considers that accounting for these loans at fair value should result in a better reflection over time of the economic returns from these loans. 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. Subsequent changes in fair value are reported in current period earnings and presented in Net gain on residential whole loans held at fair value on the Company’s consolidated statements of operations.

Cash received reflecting coupon payments on residential whole loans held at fair value is not included in Interest Income, but rather is presented in Net gain on residential whole loans held at fair value on the Company’s consolidated statements of operations. Cash outflows associated with loan-related advances made by the Company on behalf of the borrower are included in the basis of the loan and are reflected in Net gain on residential whole loans held at fair value.

(e) Securities Obtained and Pledged as Collateral/Obligation to Return Securities Obtained as Collateral

The Company has obtained securities as collateral under collateralized financing arrangements in connection with its financing strategy for Non-Agency MBS. Securities obtained as collateral in connection with these transactions are recorded on the Company's consolidated balance sheets as an asset along with a liability representing the obligation to return the collateral obtained, at fair value. While beneficial ownership of securities obtained remains with the counterparty, the Company has the right to transfer the collateral obtained or to pledge it as part of a subsequent collateralized financing transaction. (See Note 2(l) for Repurchase Agreements and Reverse Repurchase Agreements)

(f) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with financial institutions and investments in money market funds, all of which have original maturities of three months or less. Cash and cash equivalents may also include cash pledged as collateral to the Company by its repurchase agreement and/or Swap counterparties as a result of reverse margin calls (i.e., margin calls made by the Company). The Company did not hold any cash pledged by its counterparties at September 30, 2017 or December 31, 2016. The Company's investments in overnight money market funds, which are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency, were $568.3 million and $208.9 million at September 30, 2017 and December 31, 2016, respectively. (See Notes 7 and 15)

(g) Restricted Cash

Restricted cash represents the Company's cash held by its counterparties in connection with certain of the Company's Swaps and/or repurchase agreements that is not available to the Company for general corporate purposes. Restricted cash may be applied against amounts due to repurchase agreement and/or Swap counterparties, or may be returned to the Company when the related collateral requirements are exceeded or at the maturity of the Swap or repurchase agreement. The Company had aggregate restricted cash held as collateral or otherwise in connection with its Swaps and repurchase agreements of $15.4 million and $58.5 million at September 30, 2017 and December 31, 2016, respectively. (See Notes 5(b), 6, 7 and 15)

(h) Goodwill

At September 30, 2017 and December 31, 2016, the Company had goodwill of $7.2 million, which represents the unamortized portion of the excess of the fair value of its common stock issued over the fair value of net assets acquired in connection with its formation in 1998. Goodwill is tested for impairment at least annually, or more frequently under certain circumstances, at the entity level. Through September 30, 2017, the Company had not recognized any impairment against its goodwill. Goodwill is included in Other assets on the Company's consolidated balance sheets.

(i) Real Estate Owned ("REO")

REO represents real estate acquired by the Company, including through foreclosure, deed in lieu of foreclosure, or purchased in connection with the acquisition of residential whole loans. REO acquired through foreclosure or deed in lieu of foreclosure is initially recorded at fair value less estimated selling costs. REO acquired in connection with the acquisition of residential whole loans is initially recorded at its purchase price. Subsequent to acquisition, REO is reported, at each reporting date, at the lower of the current carrying amount or fair value less estimated selling costs and for presentation purposes is included in Other assets on the Company's consolidated balance sheets. Changes in fair value that result in an adjustment to the reported amount of an REO property that has a fair value at or below its carrying amount are reported in Other Income, net on the Company's consolidated statements of operations. (See Note 5(a))

(j) Depreciation

Leasehold Improvements and Other Depreciable Assets

Depreciation is computed on the straight-line method over the estimated useful life of the related assets or, in the case of leasehold improvements, over the shorter of the useful life or the lease term. Furniture, fixtures, computers and related hardware have estimated useful lives ranging from five to eight years at the time of purchase.

(k) MBS Resecuritization, Loan Securitization and Other Debt Issuance Costs

MBS resecuritization and loan securitization related costs are costs associated with the issuance of beneficial interests by consolidated VIEs and incurred by the Company in connection with various MBS resecuritization and loan securitization transactions completed by the Company. Other debt issuance and related costs include costs incurred by the Company in connection with issuing Senior Notes and certain other repurchase agreement financings. These costs may include underwriting, rating agency, legal, accounting and other fees. Such costs, which reflect deferred charges, are included on the Company's consolidated balance sheets as a direct deduction from the corresponding debt liability. These deferred charges are amortized as an adjustment to interest expense using the effective interest method. For Senior Notes and other repurchase agreement financings, such costs are amortized over the shorter of the period to the expected or stated legal maturity of the debt instruments. The Company periodically reviews the recoverability of these deferred costs and in the event an impairment charge is required, such amount will be included in Operating and Other Expense on the Company's consolidated statements of operations.

(l) Repurchase Agreements and Other Advances

Repurchase Agreements

The Company finances the holdings of a significant portion of its residential mortgage assets with repurchase agreements. Under repurchase agreements, the Company sells securities to a lender and agrees to repurchase the same securities in the future for a price that is higher than the original sale price. The difference between the sale price that the Company receives and the repurchase price that the Company pays represents interest paid to the lender. Although legally structured as sale and repurchase transactions, the Company accounts for repurchase agreements as secured borrowings. Under its repurchase agreements, the Company pledges its securities as collateral to secure the borrowing, which is equal in value to a specified percentage of the fair value of the pledged collateral, while the Company retains beneficial ownership of the pledged collateral. At the maturity of a repurchase financing, unless the repurchase financing is renewed with the same counterparty, the Company is required to repay the loan including any accrued interest and concurrently receives back its pledged collateral from the lender. With the consent of the lender, the Company may renew a repurchase financing at the then prevailing financing terms. Margin calls, whereby a lender requires that the Company pledge additional securities or cash as collateral to secure borrowings under its repurchase financing with such lender, are routinely experienced by the Company when the value of the MBS pledged as collateral declines as a result of principal amortization and prepayments or due to changes in market interest rates, spreads or other market conditions. The Company also may make margin calls on counterparties when collateral values increase.

The Company's repurchase financings typically have terms ranging from one month to six months at inception, but may also have longer or shorter terms. Should a counterparty decide not to renew a repurchase financing at maturity, the Company must either refinance elsewhere or be in a position to satisfy the obligation. If, during the term of a repurchase financing, a lender should default on its obligation, the Company might experience difficulty recovering its pledged assets which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged by the Company to such lender, including accrued interest receivable or such collateral. (See Notes 6, 7 and 15)

In addition to the repurchase agreement financing arrangements discussed above, as part of its financing strategy for Non-Agency MBS, the Company has entered into contemporaneous repurchase and reverse repurchase agreements with a single counterparty. Under a typical reverse repurchase agreement, the Company buys securities from a borrower for cash and agrees to sell the same securities in the future for a price that is higher than the original purchase price. The difference between the purchase price the Company originally paid and the sale price represents interest received from the borrower. In contrast, the contemporaneous repurchase and reverse repurchase transactions effectively resulted in the Company pledging Non-Agency MBS as collateral to the counterparty in connection with the repurchase agreement financing and obtaining U.S. Treasury securities as collateral from the same counterparty in connection with the reverse repurchase agreement. No net cash was exchanged between the Company and counterparty at the inception of the transactions. Securities obtained and pledged as collateral are recorded as an asset on the Company's consolidated balance sheets. Interest income is recorded on the reverse repurchase agreement and interest expense is recorded on the repurchase agreement on an accrual basis. Both the Company and the counterparty have the right to make daily margin calls based on changes in the value of the collateral obtained and/or pledged. The Company's liability to the counterparty in connection with this financing arrangement is recorded on the Company's consolidated balance sheets and disclosed as "Obligation to return securities obtained as collateral, at fair value." (See Note 2(e))

Federal Home Loan Bank ("FHLB") Advances

In January 2016, the Federal Housing Finance Agency (the "FHFA") released its final rule amending its regulation on FHLB membership, which, among other things, provided termination rules for then current captive insurance members. As a result of such regulation, the Company's wholly-owned subsidiary, MFA Insurance, Inc. ("MFA Insurance") was required to repay all of its outstanding FHLB advances by February 19, 2017 and its FHLB membership was terminated on such date. FHLB advances were secured financing transactions and were carried at their contractual amounts. Accrued interest payable on FHLB advances is included in Other liabilities on the Company's consolidated balance sheet at December 31, 2016. (See Notes 6, 7 and 15)

(m) Equity-Based Compensation

Compensation expense for equity-based awards that are subject to vesting conditions, is recognized ratably over the vesting period of such awards, based upon the fair value of such awards at the grant date. For certain awards granted prior to January 1, 2017, compensation expense recognized included the impact of estimated forfeitures, with any changes in estimated forfeiture rates accounted for as a change in estimate. Upon adoption of new accounting guidance that was effective for the Company on January 1, 2017, the Company made a policy election to account for forfeitures as they occur. (See Note 2(u))

From 2011 through 2013, the Company granted certain restricted stock units ("RSUs") that vested annually over a one or three-year period, provided that certain criteria were met, which were based on a formula tied to the Company's achievement of average total stockholder return during that three-year period. Starting in 2014, the Company has made annual grants of RSUs certain of which cliff vest after a three-year period and others of which cliff vest after a three-year period, subject to the achievement of certain performance criteria based on a formula tied to the Company's achievement of average total stockholder return during that three-year period. The features in these awards related to the attainment of total stockholder return over a specified period constitute a "market condition" which impacts the amount of compensation expense recognized for these awards. Specifically, the uncertainty regarding the achievement of the market condition was reflected in the grant date fair valuation of the RSUs, which is recognized as compensation expense over the relevant vesting period. The amount of compensation expense recognized is not dependent on whether the market condition was or will be achieved.

The Company has awarded dividend equivalents in connection with its equity-based awards. Payments pursuant to dividend equivalents are generally charged to Stockholders' Equity to the extent that the attached equity awards are expected to vest. Compensation expense is recognized for payments made for dividend equivalents to the extent that the attached equity awards do not or are not expected to vest and grantees are not required to return payments of dividends or dividend equivalents to the Company. (See Notes 2(n) and 14)

(n) Earnings per Common Share ("EPS")

Basic EPS is computed using the two-class method, which includes the weighted-average number of shares of common stock outstanding during the period and an estimate of other securities that participate in dividends, such as the Company's unvested restricted stock and RSUs that have non-forfeitable rights to dividends and dividend equivalents attached to/associated with RSUs and vested stock options to arrive at total common equivalent shares. In applying the two-class method, earnings are allocated to both shares of common stock and estimated securities that participate in dividends based on their respective weighted-average shares outstanding for the period. For the diluted EPS calculation, common equivalent shares are further adjusted for the effect of dilutive unexercised stock options and RSUs outstanding that are unvested and have dividends that are subject to forfeiture using the treasury stock method. Under the treasury stock method, common equivalent shares are calculated assuming that all dilutive common stock equivalents are exercised and the proceeds, along with future compensation expenses associated with such instruments, are used to repurchase shares of the Company's outstanding common stock at the average market price during the reported period. (See Note 13)

(o) Comprehensive Income/(Loss)

The Company's comprehensive income/(loss) available to common stock and participating securities includes net income, the change in net unrealized gains/(losses) on its AFS securities and derivative hedging instruments, (to the extent that such changes are not recorded in earnings), adjusted by realized net gains/(losses) reclassified out of AOCI for sold AFS securities and is reduced by dividends declared on the Company's preferred stock and issuance costs of redeemed preferred stock.

(p) U.S. Federal Income Taxes

The Company has elected to be taxed as a REIT under the provisions of the Internal Revenue Code of 1986, as amended, (the "Code") and the corresponding provisions of state law. The Company expects to operate in a manner that will enable it to satisfy the various requirements to maintain its status as a REIT for federal income tax purposes. In order to maintain its status as a REIT, the Company must, among other things, distribute at least 90% of its REIT taxable income (excluding net long-term capital gains) to stockholders in the timeframe permitted by the Code. As long as the Company maintains its status as a REIT, the Company will not be subject to regular federal income tax to the extent that it distributes 100% of its REIT taxable income (including net long-term capital gains) to its stockholders within the permitted timeframe. Should this not occur, the Company would be subject to federal taxes at prevailing corporate tax rates on the difference between its REIT taxable income and the amounts deemed to be distributed for that tax year. As the Company's objective is to distribute 100% of its REIT taxable income to its stockholders within the permitted timeframe, no provision for current or deferred income taxes has been made in the accompanying consolidated financial statements. Should the Company incur a liability for corporate income tax, such amounts would be recorded as REIT income tax expense on the Company's consolidated statements of operations. Furthermore, if the Company fails to distribute during each calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of (i) 85% its REIT ordinary income for such year, (ii) 95% of its REIT capital gain income for such year, and (iii) any undistributed taxable income from prior periods, the Company would be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amounts actually distributed. To the extent that the Company incurs interest, penalties or related excise taxes in connection with its tax obligations, including as a result of its assessment of uncertain tax positions, such amounts will be included in Operating and Other Expense on the Company's consolidated statements of operations.

In addition, the Company has elected to treat certain of its subsidiaries as a TRS. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. Generally, a TRS is subject to U.S. federal, state and local corporate income taxes. Since a portion of the Company's business may be conducted through one or more TRS, its income earned by TRS may be subject to corporate income taxation. To maintain the Company's REIT election, no more than 25% (or, for 2018 and subsequent taxable years, 20%) of the value of a REIT's assets at the end of each calendar quarter may consist of stock or securities in TRS. For purposes of the determination of U.S. federal and state income taxes, the Company's subsidiaries that elected to be treated as a TRS record current or deferred income taxes based on differences (both permanent and timing) between the determination of their taxable income and net income under GAAP. No deferred tax benefit was recorded by the Company for the nine months ended September 30, 2017 and 2016, as a valuation allowance for the full amount of the associated deferred tax asset was recognized as its recovery is not considered more likely than not.

Based on its analysis of any potential uncertain tax positions, the Company concluded that it does not have any material uncertain tax positions that meet the relevant recognition or measurement criteria as of September 30, 2017, December 31, 2016, or September 30, 2016. The Company filed its 2016 tax return prior to October 16, 2017. The Company's tax returns for tax years 2013 through 2016 are open to examination.

(q) Derivative Financial Instruments

The Company may use a variety of derivative instruments to economically hedge a portion of its exposure to market risks, including interest rate risk and prepayment risk. The objective of the Company's risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios. In particular, the Company attempts to mitigate the risk of the cost of its variable rate liabilities increasing during a period of rising interest rates. The Company's derivative instruments are currently comprised of Swaps, which are designated as cash flow hedges against the interest rate risk associated with its borrowings.

Swaps

The Company documents its risk-management policies, including objectives and strategies, as they relate to its hedging activities and the relationship between the hedging instrument and the hedged liability for all Swaps designated as hedging transactions. The Company assesses, both at inception of a hedge and on a quarterly basis thereafter, whether or not the hedge is "highly effective."

Swaps are carried on the Company's consolidated balance sheets at fair value, in Other assets, if their fair value is positive, or in Other liabilities, if their fair value is negative. Beginning in January 2017, variation margin payments on the Company's

Swaps that have been novated to a clearing house are treated as a legal settlement of the exposure under the Swap contract. Previously such payments were treated as collateral pledged against the exposure under the Swap contract. The effect of this change is to reduce what would have otherwise been reported as fair value of the Swap. Changes in the fair value of the Company's Swaps designated in hedging transactions are recorded in OCI provided that the hedge remains effective. Changes in fair value for any ineffective amount of a Swap are recognized in earnings. The Company has not recognized any change in the value of its existing Swaps designated as hedges through earnings as a result of hedge ineffectiveness.

The Company discontinues hedge accounting on a prospective basis and recognizes changes in fair value through earnings when: (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedged item (including forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as a hedge is no longer appropriate.

As of September 30, 2017, all of the Company's Swaps have been novated to a central clearing house. (See Notes 5(b), 7 and 15)

(r) Fair Value Measurements and the Fair Value Option for Financial Assets and Financial Liabilities

The Company's presentation of fair value for its financial assets and liabilities is determined within a framework that stipulates that the fair value of a financial asset or liability is an exchange price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. This definition of fair value focuses on exit price and prioritizes the use of market-based inputs over entity-specific inputs when determining fair value. In addition, the framework for measuring fair value establishes a three-level hierarchy for fair value measurements based upon the observability of inputs to the valuation of an asset or liability as of the measurement date.

In addition to the financial instruments that it is required to report at fair value, the Company has elected the fair value option for certain of its residential whole loans and CRT securities at time of acquisition. Subsequent changes in the fair value of these loans and CRT securities are reported in Net gain on residential whole loans held at fair value and Other income, net respectively on the Company's consolidated statements of operations. A decision to elect the fair value option for an eligible financial instrument, which may be made on an instrument by instrument basis, is irrevocable. (See Notes 2(d), 4 and 15)

(s) Variable Interest Entities

An entity is referred to as a VIE if it meets at least one of the following criteria: (i) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support of other parties; or (ii) as a group, the holders of the equity investment at risk lack (a) the power to direct the activities of an entity that most significantly impact the entity's economic performance; (b) the obligation to absorb the expected losses; or (c) the right to receive the expected residual returns; or (iii) have disproportional voting rights and the entity's activities are conducted on behalf of the investor that has disproportionately few voting rights.

The Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

The Company has in prior years entered into several MBS resecuritization transactions and during the second quarter of 2017, completed a loan securitization transaction which resulted in the Company consolidating the VIEs that were created to facilitate these transactions. In determining the accounting treatment to be applied to these transactions, the Company concluded that the entities used to facilitate these transactions were VIEs and that they should be consolidated. If the Company had determined that consolidation was not required, it would have then assessed whether the transfers of the underlying assets would qualify as sales or should be accounted for as secured financings under GAAP. (See Note 16)

The Company also includes on its consolidated balance sheets certain financial assets and liabilities that are acquired/issued by trusts and/or other special purpose entities that have been evaluated as being required to be consolidated by the Company under the applicable accounting guidance.

(t) Offering Costs Related to Issuance and Redemption of Preferred Stock

Offering costs related to issuance of preferred stock are recorded as a reduction in Additional paid-in capital, a component of Stockholders' Equity, at the time such preferred stock is issued. On redemption of preferred stock, any excess of the fair value of the consideration transferred to the holders of the preferred stock over the carrying amount of the preferred stock in the Company's consolidated balance sheets is included in the determination of Net Income Available to Common Stock and Participating Securities in the calculation of EPS.

(u) New Accounting Standards and Interpretations

Accounting Standards Adopted in 2017

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

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, *Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). The amendments of this ASU require all income tax effects of awards to be recognized in the income statement when the awards vest or are settled. ASU 2016-09 also allows an employer to repurchase more of an employee's shares than it could prior to adoption of this ASU for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. ASU 2016-09 was effective for the Company for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. The Company's adoption of ASU 2016-09 did not have a significant impact on its financial position or financial statement disclosures.

3. MBS, CRT Securities and MSR Related Assets

Agency and Non-Agency MBS

The Company's MBS are comprised of Agency MBS and Non-Agency MBS which include MBS issued prior to 2008 ("Legacy Non-Agency MBS"). These MBS are secured by: (i) hybrid mortgages ("Hybrids"), which have interest rates that are fixed for a specified period of time and, thereafter, generally adjust annually to an increment over a specified interest rate index; (ii) adjustable-rate mortgages ("ARMs"); (iii) mortgages that have interest rates that reset more frequently (collectively, "ARM-MBS"); and (iv) 15 year and longer-term fixed rate mortgages. In addition, the Company's MBS are also comprised of MBS backed by securitized re-performing/non-performing loans ("RPL/NPL MBS"), where the cash flows of the bond may not reflect the contractual cash flows of the underlying collateral. The Company's RPL/NPL MBS are structured with a contractual coupon step-up feature where the coupon increases up to 300 basis points at 36 months from issuance or sooner. The Company pledges a significant portion of its MBS as collateral against its borrowings under repurchase agreements and Swaps. (See Note 7)

Agency MBS: Agency MBS are guaranteed as to principal and/or interest by a federally chartered corporation, such as Fannie Mae or Freddie Mac, or an agency of the U.S. Government, such as Ginnie Mae. The payment of principal and/or interest on Ginnie Mae MBS is explicitly backed by the full faith and credit of the U.S. Government. Since the third quarter of 2008, Fannie Mae and Freddie Mac have been under the conservatorship of the Federal Housing Finance Agency, which significantly strengthened the backing for these government-sponsored entities.

Non-Agency MBS (including Non-Agency MBS transferred to consolidated VIEs): The Company's Non-Agency MBS are primarily secured by pools of residential mortgages, which are not guaranteed by an agency of the U.S. Government or any federally chartered corporation. Credit risk associated with Non-Agency MBS is regularly assessed as new information regarding the underlying collateral becomes available and based on updated estimates of cash flows generated by the underlying collateral.

CRT Securities

CRT securities are debt obligations issued by Fannie Mae and Freddie Mac. While the coupon payments are paid by Fannie Mae or Freddie Mac on a monthly basis, the payment of principal is dependent on the performance of loans in a reference pool of MBS securitized by Fannie Mae or Freddie Mac. As principal on loans in the reference pool are paid, principal payments on the securities are made and the principal balances of the securities are reduced. Consequently, CRT securities mirror the payment and prepayment behavior of the mortgage loans in the reference pool. As an investor in a CRT security, the Company may incur a loss if certain defined credit events occur, including, for certain CRT securities, if the loans in the reference pool experience delinquencies exceeding specified thresholds. The Company assesses the credit risk associated with CRT securities by assessing the current and expected future performance of the associated reference pool. The Company pledges a significant portion of its CRT securities as collateral against its borrowings under repurchase agreements. (See Note 7)

The following tables present certain information about the Company's MBS and CRT securities at September 30, 2017 and December 31, 2016:

September 30, 2017

(In Thousands)	Principal/ Current Face	Purchase Premiums	Accretable Purchase Discounts	Discount Designated as Credit Reserve and OTTI *(1)*	Amortized Cost *(2)*	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)
Agency MBS:									
Fannie Mae	$ 2,310,368	$ 87,658	$ (41)	$ —	$ 2,397,985	$ 2,404,220	$ 27,518	$ (21,283)	$ 6,235
Freddie Mac	593,502	22,884	—	—	617,450	608,349	2,510	(11,611)	(9,101)
Ginnie Mae	6,532	118	—	—	6,650	6,735	85	—	85
Total Agency MBS	2,910,402	110,660	(41)	—	3,022,085	3,019,304	30,113	(32,894)	(2,781)
Non-Agency MBS:									
Expected to Recover Par *(3)(4)*	1,390,412	51	(24,594)	—	1,365,869	1,393,982	28,352	(239)	28,113
Expected to Recover Less than Par *(3)*	2,710,690	—	(220,199)	(593,134)	1,897,357	2,517,678	620,472	(151)	620,321
Total Non-Agency MBS *(5)*	4,101,102	51	(244,793)	(593,134)	3,263,226	3,911,660	648,824	(390)	648,434
Total MBS	7,011,504	110,711	(244,834)	(593,134)	6,285,311	6,930,964	678,937	(33,284)	645,653
CRT securities *(6)*	608,146	8,474	(3,961)	—	612,659	653,633	42,919	(1,945)	40,974
Total MBS and CRT securities	$ 7,619,650	$ 119,185	$ (248,795)	$ (593,134)	$ 6,897,970	$ 7,584,597	$ 721,856	$ (35,229)	$ 686,627

December 31, 2016

(In Thousands)	Principal/ Current Face	Purchase Premiums	Accretable Purchase Discounts	Discount Designated as Credit Reserve and OTTI *(1)*	Amortized Cost *(2)*	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)
Agency MBS:									
Fannie Mae	$ 2,879,807	$ 108,310	$ (51)	$ —	$ 2,988,066	$ 3,014,464	$ 45,706	$ (19,308)	$ 26,398
Freddie Mac	693,945	26,736	—	—	723,285	716,209	4,809	(11,885)	(7,076)
Ginnie Mae	7,550	136	—	—	7,686	7,824	138	—	138
Total Agency MBS	3,581,302	135,182	(51)	—	3,719,037	3,738,497	50,653	(31,193)	19,460
Non-Agency MBS:									
Expected to Recover Par *(3)(4)*	2,706,418	57	(24,273)	—	2,682,202	2,706,311	26,477	(2,368)	24,109
Expected to Recover Less than Par *(3)*	3,359,200	—	(253,918)	(694,241)	2,411,041	2,978,525	570,318	(2,834)	567,484
Total Non-Agency MBS *(5)*	6,065,618	57	(278,191)	(694,241)	5,093,243	5,684,836	596,795	(5,202)	591,593
Total MBS	9,646,920	135,239	(278,242)	(694,241)	8,812,280	9,423,333	647,448	(36,395)	611,053
CRT securities *(6)*	384,993	3,312	(5,557)	—	382,748	404,850	22,105	(3)	22,102
Total MBS and CRT securities	$ 10,031,913	$ 138,551	$ (283,799)	$ (694,241)	$ 9,195,028	$ 9,828,183	$ 669,553	$ (36,398)	$ 633,155

(1) Discount designated as Credit Reserve and amounts related to OTTI are generally not expected to be accreted into interest income. Amounts disclosed at September 30, 2017 reflect Credit Reserve of $578.3 million and OTTI of $14.8 million. Amounts disclosed at December 31, 2016 reflect Credit Reserve of $675.6 million and OTTI of $18.6 million.

(2) Includes principal payments receivable of $1.1 million and $2.6 million at September 30, 2017 and December 31, 2016, respectively, which are not included in the Principal/Current Face.

(3) Based on management's current estimates of future principal cash flows expected to be received.

(4) Includes RPL/NPL MBS, which at September 30, 2017 had a $1.2 billion Principal/Current face, $1.2 billion amortized cost and $1.2 billion fair value. At December 31, 2016, RPL/NPL MBS had a $2.5 billion Principal/Current face, $2.5 billion amortized cost and $2.5 billion fair value.

(5) At September 30, 2017 and December 31, 2016, the Company expected to recover approximately 86% and 89%, respectively, of the then-current face amount of Non-Agency MBS.

(6) Amounts disclosed at September 30, 2017 includes CRT securities with a fair value of $518.1 million for which the fair value option has been elected. Such securities had gross unrealized gains of approximately $28.9 million and gross unrealized losses of approximately $1.9 million at September 30, 2017. Amounts disclosed at December 31, 2016 includes CRT securities with a fair value of $271.2 million for which the fair value option has been elected. Such securities had gross unrealized gains of approximately $12.7 million and gross unrealized losses of approximately $3,000 at December 31, 2016.

Unrealized Losses on MBS and CRT Securities

The following table presents information about the Company’s MBS and CRT securities that were in an unrealized loss position at September 30, 2017:

Unrealized Loss Position For:

	Less than 12 Months			12 Months or more			Total	
(Dollars in Thousands)	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Agency MBS:								
Fannie Mae	$ 349,961	$ 2,420	92	$ 859,887	$ 18,863	180	$ 1,209,848	$ 21,283
Freddie Mac	62,110	519	16	399,874	11,092	98	461,984	11,611
Total Agency MBS	412,071	2,939	108	1,259,761	29,955	278	1,671,832	32,894
Non-Agency MBS:								
Expected to Recover Par *(1)*	—	—	—	13,013	239	9	13,013	239
Expected to Recover Less than Par *(1)*	6,412	48	3	7,329	103	1	13,741	151
Total Non-Agency MBS	6,412	48	3	20,342	342	10	26,754	390
Total MBS	418,483	2,987	111	1,280,103	30,297	288	1,698,586	33,284
CRT securities	27,179	1,945	9	—	—	—	27,179	1,945
Total MBS and CRT securities	$ 445,662	$ 4,932	120	$ 1,280,103	$ 30,297	288	$ 1,725,765	$ 35,229

(1) Based on management’s current estimates of future principal cash flows expected to be received.

At September 30, 2017, the Company did not intend to sell any of its investments that were in an unrealized loss position, and it is “more likely than not” that the Company will not be required to sell these securities before recovery of their amortized cost basis, which may be at their maturity.

Gross unrealized losses on the Company’s Agency MBS were $32.9 million at September 30, 2017. Agency MBS are issued by Government Sponsored Entities (“GSEs”) and enjoy either the implicit or explicit backing of the full faith and credit of the U.S. Government. While the Company’s Agency MBS are not rated by any rating agency, they are currently perceived by market participants to be of high credit quality, with risk of default limited to the unlikely event that the U.S. Government would not continue to support the GSEs. Given the credit quality inherent in Agency MBS, the Company does not consider any of the current impairments on its Agency MBS to be credit related. In assessing whether it is more likely than not that it will be required to sell any impaired security before its anticipated recovery, which may be at its maturity, the Company considers for each impaired security, the significance of each investment, the amount of impairment, the projected future performance of such impaired securities, as well as the Company’s current and anticipated leverage capacity and liquidity position. Based on these analyses, the Company determined that at September 30, 2017 any unrealized losses on its Agency MBS were temporary.

Gross unrealized losses on the Company’s Non-Agency MBS were $390,000 at September 30, 2017. Based upon the most recent evaluation, the Company does not consider these unrealized losses to be indicative of OTTI and does not believe that these unrealized losses are credit related, but are rather a reflection of current market yields and/or marketplace bid-ask spreads. The Company has reviewed its Non-Agency MBS that are in an unrealized loss position to identify those securities with losses that are other-than-temporary based on an assessment of changes in expected cash flows for such securities, which considers recent bond performance and, where possible, expected future performance of the underlying collateral.

The Company did not recognize any credit-related OTTI losses through earnings related to its Non-Agency MBS during the three months ended September 30, 2017. The Company recognized credit-related OTTI losses through earnings related to its Non-Agency MBS of $1.0 million during the nine months ended September 30, 2017 and $485,000 during the three and nine months ended September 30, 2016.

Non-Agency MBS on which OTTI is recognized have experienced, or are expected to experience, credit-related adverse cash flow changes. The Company’s estimate of cash flows for these Non-Agency MBS is based on its review of the underlying mortgage loans securing these MBS. The Company considers information available about the structure of the securitization, including structural credit enhancement, if any, and the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, FICO scores at loan origination, year of origination, LTVs, geographic concentrations, as well as Rating Agency reports, general market assessments, and dialogue with market participants. Changes in the Company's evaluation of each of these factors impacts the cash flows expected to be collected at the OTTI assessment date. For Non-Agency MBS purchased at a discount to par that were assessed for and had no OTTI recorded this period, such cash flow estimates indicated that the amount of expected losses decreased compared to the previous OTTI assessment date. These positive cash flow changes are primarily driven by recent improvements in LTVs due to loan amortization and home price appreciation, which, in turn, positively impacts the Company's estimates of default rates and loss severities for the underlying collateral. In addition, voluntary prepayments (i.e., loans that prepay in full with no loss) have generally trended higher for these MBS which also positively impacts the Company's estimate of expected loss. Overall, the combination of higher voluntary prepayments and lower LTVs supports the Company's assessment that such MBS are not other-than-temporarily impaired.

The following table presents the composition of OTTI charges recorded by the Company for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2017**	**2016**	**2017**	**2016**
Total OTTI losses	$ —	$ (1,255)	$ (63)	$ (1,255)
OTTI reclassified from OCI	—	770	(969)	770
OTTI recognized in earnings	$ —	$ (485)	$ (1,032)	$ (485)

The following table presents a roll-forward of the credit loss component of OTTI on the Company's Non-Agency MBS for which a non-credit component of OTTI was previously recognized in OCI. Changes in the credit loss component of OTTI are presented based upon whether the current period is the first time OTTI was recorded on a security or a subsequent OTTI charge was recorded.

	Three Months Ended September 30,	Nine Months Ended September 30,
(In Thousands)	**2017**	**2017**
Credit loss component of OTTI at beginning of period	$ 38,337	$ 37,305
Additions for credit related OTTI not previously recognized	—	63
Subsequent additional credit related OTTI recorded	—	969
Credit loss component of OTTI at end of period	$ 38,337	$ 38,337

Purchase Discounts on Non-Agency MBS

The following tables present the changes in the components of the Company's purchase discount on its Non-Agency MBS between purchase discount designated as Credit Reserve and OTTI and accretable purchase discount for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016	
(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	$ (626,498)	$ (257,967)	$ (724,198)	$ (325,548)
Accretion of discount	—	18,621	—	20,236
Realized credit losses	13,982	—	15,629	—
Purchases	—	(1,929)	(15,124)	9,830
Sales	4,620	11,244	2,398	6,523
Net impairment losses recognized in earnings	—	—	(485)	—
Transfers/release of credit reserve	14,762	(14,762)	6,822	(6,822)
Balance at end of period	$ (593,134)	$ (244,793)	$ (714,958)	$ (295,781)

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
(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	$ (694,241)	$ (278,191)	$ (787,541)	$ (312,182)
Impact of RMBS Issuer Settlement *(2)*	—	—	—	(52,881)
Accretion of discount	—	60,461	—	61,153
Realized credit losses	39,445	—	49,408	—
Purchases	(484)	(3,449)	(25,999)	13,210
Sales	29,398	10,166	16,281	28,297
Net impairment losses recognized in earnings	(1,032)	—	(485)	—
Transfers/release of credit reserve	33,780	(33,780)	33,378	(33,378)
Balance at end of period	$ (593,134)	$ (244,793)	$ (714,958)	$ (295,781)

(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 nine months ended September 30, 2016 in connection with the settlement of litigation related to certain Countrywide-sponsored residential mortgage backed securitization trusts.

Sales of MBS

During the three and nine months ended September 30, 2017, the Company sold certain Non-Agency MBS for $44.5 million and $83.1 million, realizing gross gains of $14.9 million and $30.8 million, respectively. During the three and nine months ended September 30, 2016, the Company sold certain Non-Agency MBS for $13.2 million and $65.1 million, realizing gross gains of $7.1 million and $26.1 million, respectively. The Company has no continuing involvement with any of the sold MBS.

MSR Related Assets

(a) Term Notes Backed by MSR Related Collateral

At September 30, 2017 and December 31, 2016, the Company had $311.6 million and $141.0 million, respectively of term notes issued by SPVs that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. Payment of principal and interest on these term notes is considered to be largely dependent on cash flows generated by the underlying MSRs, as this impacts the cash flows available to the SPV that issued the term notes.

At September 30, 2017, these term notes had an amortized cost of $311.0 million, gross unrealized gains of $563,000, a weighted average yield of 5.62% and a weighted average term to maturity of 3.7 years. At December 31, 2016, the term notes had an amortized cost of $141.0 million, no gross unrealized gains, a weighted average yield of 5.50% and a weighted average term to maturity of 4.6 years.

(b) Corporate Loan

The Company has entered into a loan agreement with an entity that originates loans and owns the related MSRs. The loan is secured by certain U.S. Government, Agency and private-label MSRs, as well as other unencumbered assets owned by the borrower. Under the terms of the loan agreement, the Company has committed to lend $130.0 million of which approximately $101.1 million was drawn at September 30, 2017. At September 30, 2017, the coupon paid by the borrower on the drawn amount is 7.74%, the remaining term associated with the loan is 2.8 years and remaining commitment period on any undrawn amount is nine months. During the remaining commitment period, the Company receives a commitment fee of 1% of the undrawn amount for the first three months, which then increases to 1.5% for the subsequent six month period. For the three months ended September 30, 2017, the Company recognized interest income of $2.1 million, including discount accretion and commitment fee income of $76,000. For the nine months ended September 30, 2017, the Company recognized interest income of $5.7 million including discount accretion and commitment fee income of $212,000.

Impact of AFS Securities on AOCI

The following table presents the impact of the Company's AFS securities on its AOCI for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2017**	**2016**	**2017**	**2016**
AOCI from AFS securities:				
Unrealized gain on AFS securities at beginning of period	$ 668,223	$ 625,697	$ 620,403	$ 585,250
Unrealized (loss)/gain on Agency MBS, net	(3,032)	(6,941)	(22,241)	17,857
Unrealized gain on Non-Agency MBS, net	10,020	71,291	93,429	106,906
Reclassification adjustment for MBS sales included in net income	(14,935)	(6,829)	(30,283)	(26,795)
Reclassification adjustment for OTTI included in net income	—	(485)	(1,032)	(485)
Change in AOCI from AFS securities	(7,947)	57,036	39,873	97,483
Balance at end of period	$ 660,276	$ 682,733	$ 660,276	$ 682,733

Interest Income on MBS, CRT Securities and MSR Related Assets

The following table presents the components of interest income on the Company's MBS, CRT securities and MSR related assets for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2017	2016	2017	2016
Agency MBS				
Coupon interest	$ 23,473	$ 29,283	$ 74,589	$ 92,263
Effective yield adjustment *(1)*	(7,940)	(10,326)	(24,575)	(27,717)
Interest income	$ 15,533	$ 18,957	$ 50,014	$ 64,546
Legacy Non-Agency MBS				
Coupon interest	$ 30,688	$ 37,763	$ 97,796	$ 117,620
Effective yield adjustment *(2)*	18,005	20,055	59,033	59,270
Interest income	$ 48,693	$ 57,818	$ 156,829	$ 176,890
RPL/NPL MBS				
Coupon interest	$ 13,947	$ 25,630	$ 54,475	$ 74,773
Effective yield adjustment *(1)*	612	190	1,424	1,892
Interest income	$ 14,559	$ 25,820	$ 55,899	$ 76,665
CRT securities				
Coupon interest	$ 7,868	$ 3,562	$ 19,712	$ 8,725
Effective yield adjustment *(2)*	808	421	3,186	1,172
Interest income	$ 8,676	$ 3,983	$ 22,898	$ 9,897
MSR related assets				
Coupon interest	$ 7,117	$ —	$ 17,621	$ —
Effective yield adjustment *(1)*	77	—	212	—
Interest income	$ 7,194	$ —	$ 17,833	$ —

(1) Includes amortization of premium paid net of accretion of purchase discount. For Agency MBS, RPL/NPL MBS and the corporate loan secured by MSRs, interest income is recorded at an effective yield, which reflects net premium amortization/accretion based on actual prepayment activity.

(2) The effective yield adjustment is the difference between the net income calculated using the net yield, which is based on management's estimates of the amount and timing of future cash flows, less the current coupon yield.

4. Residential Whole Loans

Included on the Company's consolidated balance sheets at September 30, 2017 and December 31, 2016 are approximately $1.7 billion and $1.4 billion, respectively, of residential whole loans arising from the Company's interests in certain entities established to acquire the loans and an entity in connection with its loan securitization transaction. The Company has assessed that these entities are required to be consolidated.

Residential Whole Loans, at Carrying Value

Residential whole loans, at carrying value totaled approximately $639.2 million and $590.5 million at September 30, 2017 and December 31, 2016, respectively. The carrying value reflects the original investment amount, plus accretion of interest income, less principal and interest cash flows received. The carrying value is reduced by any allowance for loan losses established subsequent to acquisition. The Company had approximately 3,700 and 3,200 Residential whole loans held at carrying value at September 30, 2017 and December 31, 2016, respectively.

As of September 30, 2017 the Company had established an allowance for loan losses of approximately $318,000 on its residential whole loan pools held at carrying value. For the three and nine months ended September 30, 2017, a net reversal of provision for loan losses of approximately $57,000 and $672,000 was recorded, respectively, which is included in Operating and Other Expense on the Company's consolidated statements of operations. For the three months ended September 30, 2016, there was no provision for loan losses recorded. For the nine months ended September 30, 2016, a net reversal of provision for loan losses of approximately $142,000 was recorded.

The following table presents the activity in the Company's allowance for loan losses on its residential whole loan pools held at carrying value for the three and nine months ended September 30, 2017 and 2016:

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Balance at the beginning of period	$ 375	$ 1,023	$ 990	$ 1,165
Reversal of provisions for loan losses	(57)	—	(672)	(142)
Balance at the end of period	$ 318	$ 1,023	$ 318	$ 1,023

The following table presents information regarding estimates of the contractually required payments, the cash flows expected to be collected, and the estimated fair value of the residential whole loans held at carrying value acquired by the Company for the three and nine months ended September 30, 2017 and 2016:

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017 *(1)*	2016 *(2)*	2017 *(1)*	2016 *(2)*
Contractually required principal and interest	$ 185,234	$ 121,818	$ 185,234	$ 363,144
Contractual cash flows not expected to be collected (non-accretable yield)	(33,448)	(31,648)	(33,448)	(66,685)
Expected cash flows to be collected	151,786	90,170	151,786	296,459
Interest component of expected cash flows (accretable yield)	(53,916)	(28,801)	(53,916)	(98,550)
Fair value at the date of acquisition	$ 97,870	$ 61,369	$ 97,870	$ 197,909

(1) Included in the activity presented for the three and nine months ended September 30, 2017 are approximately $97.9 million of loans the Company committed to purchase during the three months ended June 30, 2017, but for which the closing of the purchase transaction occurred during the three months ended September 30, 2017.

(2) Excluded from the table above are approximately $111.2 million of residential whole loans held at carrying value for which the closing of the purchase transaction had not occurred as of September 30, 2016.

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The following table presents accretable yield activity for the Company's residential whole loans held at carrying value for the three and nine months ended September 30, 2017 and 2016:

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017 *(1)*	2016 *(2)*	2017 *(1)*	2016 *(2)*
Balance at beginning of period	$ 318,125	$ 234,527	$ 334,379	$ 175,271
Additions	53,916	28,801	53,916	98,550
Accretion	(9,026)	(5,917)	(26,219)	(16,112)
Reclassifications from/(to) non-accretable difference, net	303	218	1,242	(80)
Balance at end of period	$ 363,318	$ 257,629	$ 363,318	$ 257,629

(1) Included in the activity presented for the three and nine months ended September 30, 2017 are approximately $97.9 million of loans the Company committed to purchase during the three months ended June 30, 2017, but for which the closing of the purchase transaction occurred during the three months ended September 30, 2017.
(2) Excluded from the table above are approximately $111.2 million of residential whole loans held at carrying value for which the closing of the purchase transaction had not occurred as of September 30, 2016.

Accretable yield for residential whole loans is the excess of loan cash flows expected to be collected over the purchase price. The cash flows expected to be collected represent the Company's estimate of the amount and timing of undiscounted principal and interest cash flows. Additions include accretable yield estimates for purchases made during the period and reclassification to accretable yield from non-accretable yield. Accretable yield is reduced by accretion during the period. The reclassifications between accretable and non-accretable yield and the accretion of interest income are based on changes in estimates regarding loan performance and the value of the underlying real estate securing the loans. In future periods, as the Company updates estimates of cash flows expected to be collected from the loans and the underlying collateral, the accretable yield may change. Therefore, the amount of accretable income recorded during the three and nine months ended September 30, 2017 is not necessarily indicative of future results.

Residential Whole Loans, at Fair Value

Certain of the Company's residential whole loans are presented at fair value on its consolidated balance sheets as a result of a fair value election made at time of acquisition. Subsequent changes in fair value are reported in current period earnings and presented in Net gain on residential whole loans held at fair value on the Company's consolidated statements of operations.

The following table presents information regarding the Company's residential whole loans held at fair value at September 30, 2017 and December 31, 2016:

(Dollars in Thousands)	September 30, 2017 *(1)*	December 31, 2016
Outstanding principal balance	$ 1,178,866	$ 966,174
Aggregate fair value	$ 983,150	$ 814,682
Number of loans	4,834	3,812

(1) Excluded from the table above are approximately $120.4 million of residential whole loans held at fair value for which the closing of the purchase transaction had not occurred as of September 30, 2017.

During the three and nine months ended September 30, 2017, the Company recorded net gains on residential whole loans held at fair value of $18.7 million and $48.7 million, respectively. During the three and nine months ended September 30, 2016, the Company recorded net gains on residential whole loans held at fair value of $19.6 million and $47.7 million, respectively.

The following table presents the components of Net gain on residential whole loans held at fair value for the three and nine months ended September 30, 2017 and 2016:

(In Thousands)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Coupon payments and other income received	$ 9,824	$ 6,253	$ 27,971	$ 15,987
Net unrealized gains	5,289	10,913	12,499	25,529
Net gain on payoff/liquidation of loans	1,456	1,535	3,076	3,536
Net gain on transfer to REO	2,110	938	5,114	2,677
Total	$ 18,679	$ 19,639	$ 48,660	$ 47,729

5. Other Assets

The following table presents the components of the Company’s Other assets at September 30, 2017 and December 31, 2016:

(In Thousands)	September 30, 2017	December 31, 2016
REO	$ 137,979	$ 80,503
Interest receivable	25,319	27,795
Swaps, at fair value	—	233
Goodwill	7,189	7,189
Prepaid and other assets	62,870	78,775
Total Other Assets	$ 233,357	$ 194,495

(a) Real Estate Owned

At September 30, 2017, the Company had 671 REO properties with an aggregate carrying value of $138.0 million. At December 31, 2016, the Company had 447 REO properties with an aggregate carrying value of $80.5 million.

During the three and nine months ended September 30, 2017, the Company reclassified 174 and 521 mortgage loans to REO at an aggregate estimated fair value less estimated selling costs of $38.9 million and $97.4 million, respectively, at the time of transfer. During the three and nine months ended September 30, 2016, the Company reclassified 122 and 385 mortgage loans to REO at an aggregate estimated fair value less estimated selling costs of $24.8 million and $69.8 million, respectively, at the time of transfer. Such transfers occur when the Company takes possession of the property by foreclosing on the borrower or completes a “deed-in-lieu of foreclosure” transaction. From time to time, the Company also acquires REO in connection with transactions to acquire residential whole loans.

At September 30, 2017, $125.2 million of residential real estate property was held by the Company that was acquired either through a completed foreclosure proceeding or from completion of a deed-in-lieu of foreclosure or similar legal agreement. In addition, formal foreclosure proceedings were in process with respect to $31.4 million of residential whole loans held at carrying value and $538.5 million of residential whole loans held at fair value at September 30, 2017.

During the three and nine months ended September 30, 2017, the Company sold 139 and 368 REO properties for consideration of $18.4 million and $53.0 million, realizing net gains of approximately $805,000 and $2.8 million, respectively. During the three and nine months ended September 30, 2016, the Company sold 57 and 179 REO properties for consideration of $7.9 million and $24.0 million, realizing net gains of approximately $733,000 and $1.8 million, respectively. These amounts are included in Other, net on the Company’s consolidated statements of operations. In addition, following an updated assessment of liquidation amounts expected to be realized that was performed on all REO held at the end of the third quarters of 2017 and 2016, downward adjustments of approximately $3.1 million and $1.7 million were recorded to reflect certain REO properties at the lower of cost or estimated fair value as of September 30, 2017 and 2016, respectively.

The following table presents the activity in the Company's REO for the three and nine months ended September 30, 2017 and 2016:

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Balance at beginning of period	$ 104,443	$ 56,784	$ 80,503	$ 28,026
Adjustments to record at lower of cost or fair value	(3,129)	(1,659)	(7,306)	(4,655)
Transfer from residential whole loans *(1)*	38,944	24,812	97,388	69,803
Purchases and capital improvements	15,342	415	17,224	2,204
Disposals	(17,621)	(7,163)	(49,830)	(22,189)
Balance at end of period	$ 137,979	$ 73,189	$ 137,979	$ 73,189

(1) Includes net gain recorded on transfer of approximately $2.8 million and $845,000 for the three months ended September 30, 2017 and 2016, respectively; and approximately $5.3 million and $2.5 million for the nine months ended September 30, 2017 and 2016, respectively.

(b) Derivative Instruments

The Company's derivative instruments are currently comprised of Swaps, which are designated as cash flow hedges against the interest rate risk associated with its borrowings. The following table presents the fair value of the Company's derivative instruments and their balance sheet location at September 30, 2017 and December 31, 2016:

Derivative Instrument	Designation	Balance Sheet Location	September 30, 2017 Notional Amount	September 30, 2017 Fair Value	December 31, 2016 Notional Amount	December 31, 2016 Fair Value
(In Thousands)						
Non-cleared legacy Swaps *(1)*	Hedging	Assets	$ —	$ —	$ 350,000	$ 233
Cleared Swaps *(2)*	Hedging	Liabilities	$ 2,550,000	$ —	$ 2,550,000	$ (46,954)

(1) Non-cleared legacy Swaps include Swaps executed and settled bilaterally with counterparties without the use of an organized exchange or central clearing house. The Company's final non-cleared legacy Swaps expired during the three months ended June 30, 2017.

(2) Cleared Swaps include Swaps executed bilaterally with a counterparty in the over-the-counter market but then novated to a central clearing house, whereby the central clearing house becomes the counterparty to both of the original counterparties. As of September 30, 2017, all of the Company's Swaps have been novated to and are cleared by a central clearing house are subject to initial margin requirements. Beginning in January 2017, variation margin payments on the Company's cleared Swaps are treated as a legal settlement of the exposure under the Swap contract. Previously such payments were treated as collateral pledged against the exposure under the Swap contract. The effect of this change is to reduce what would have otherwise been reported as fair value of the Swap.

Swaps

The following table presents the assets pledged as collateral against the Company's Swap contracts at September 30, 2017 and December 31, 2016:

(In Thousands)	September 30, 2017	December 31, 2016
Agency MBS, at fair value	$ 23,197	$ 32,468
Restricted cash	6,524	53,849
Total assets pledged against Swaps	$ 29,721	$ 86,317

The Company's derivative hedging instruments, or a portion thereof, could become ineffective in the future if the associated repurchase agreements that such derivatives hedge fail to exist or fail to have terms that match those of the derivatives that hedge such borrowings. At September 30, 2017, all of the Company's derivatives were deemed effective for hedging purposes and no derivatives were terminated during the three and nine months ended September 30, 2017 and 2016.

The Company's Swaps designated as hedging transactions have the effect of modifying the repricing characteristics of the Company's repurchase agreements and cash flows for such liabilities. To date, no cost has been incurred at the inception of a Swap (except for certain transaction fees related to entering into Swaps cleared though a central clearing house), pursuant to which the Company agrees to pay a fixed rate of interest and receive a variable interest rate, generally based on one-month or three-month London Interbank Offered Rate ("LIBOR"), on the notional amount of the Swap. The Company did not recognize any change in the value of its existing Swaps designated as hedges through earnings as a result of hedge ineffectiveness during the three and nine months ended September 30, 2017 and 2016.

At September 30, 2017, the Company had Swaps designated in hedging relationships with an aggregate notional amount of $2.6 billion and extended 30 months on average with a maximum term of approximately 71 months.

The following table presents certain information with respect to the Company's Swap activity during the three and nine months ended September 30, 2017:

(Dollars in Thousands)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
New Swaps:		
Number of new Swaps	—	—
Aggregate notional amount	$ —	$ —
Swaps amortized/expired:		
Aggregate notional amount	$ —	$ 350,000
Weighted average fixed-pay rate	—%	0.58%

The following table presents information about the Company's Swaps at September 30, 2017 and December 31, 2016:

	September 30, 2017			December 31, 2016		
Maturity *(1)*	**Notional Amount**	**Weighted Average Fixed-Pay Interest Rate**	**Weighted Average Variable Interest Rate *(2)***	**Notional Amount**	**Weighted Average Fixed-Pay Interest Rate**	**Weighted Average Variable Interest Rate *(2)***
(Dollars in Thousands)						
Within 30 days	$ —	—%	—%	$ —	—%	—%
Over 30 days to 3 months	—	—	—	50,000	0.67	0.64
Over 3 months to 6 months	—	—	—	300,000	0.57	0.66
Over 6 months to 12 months	550,000	1.49	1.23	—	—	—
Over 12 months to 24 months	200,000	1.71	1.24	550,000	1.49	0.71
Over 24 months to 36 months	1,500,000	2.22	1.24	200,000	1.71	0.76
Over 36 months to 48 months	200,000	2.20	1.23	1,500,000	2.22	0.74
Over 48 months to 60 months	—	—	—	200,000	2.20	0.75
Over 60 months to 72 months	100,000	2.75	1.24	—	—	—
Over 72 months to 84 months *(3)*	—	—	—	100,000	2.75	0.74
Total Swaps	$ 2,550,000	2.04%	1.24%	$ 2,900,000	1.87%	0.72%

(1) Each maturity category reflects contractual amortization and/or maturity of notional amounts.
(2) Reflects the benchmark variable rate due from the counterparty at the date presented, which rate adjusts monthly or quarterly based on one-month or three-month LIBOR, respectively.
(3) Reflects one Swap with a maturity date of July 2023.

The following table presents the net impact of the Company's derivative hedging instruments on its interest expense and the weighted average interest rate paid and received for such Swaps for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	2017	2016	2017	2016
Interest expense attributable to Swaps	$ 5,310	$ 10,170	$ 19,606	$ 31,279
Weighted average Swap rate paid	2.04%	1.82%	1.96%	1.82%
Weighted average Swap rate received	1.23%	0.49%	1.00%	0.45%

Impact of Derivative Hedging Instruments on AOCI

The following table presents the impact of the Company's derivative hedging instruments on its AOCI for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2017	2016	2017	2016
AOCI from derivative hedging instruments:				
Balance at beginning of period	$ (35,841) —	$ (131,971)	$ (46,721)	$ (69,399)
Net gain/(loss) on Swaps	5,791	22,769	16,671	(39,803)
Balance at end of period	$ (30,050)	$ (109,202)	$ (30,050)	$ (109,202)

6. Repurchase Agreements and Other Advances

Repurchase Agreements

The Company's repurchase agreements are accounted for as secured borrowings and bear interest that is generally LIBOR-based. (See Notes 2(l) and 7) At September 30, 2017, the Company's borrowings under repurchase agreements had a weighted average remaining term-to-interest rate reset of 19 days and an effective repricing period of eleven months, including the impact of related Swaps. At December 31, 2016, the Company's borrowings under repurchase agreements had a weighted average remaining term-to-interest rate reset of 19 days and an effective repricing period of 12 months, including the impact of related Swaps.

The following table presents information with respect to the Company's borrowings under repurchase agreements and associated assets pledged as collateral at September 30, 2017 and December 31, 2016:

(Dollars in Thousands)	September 30, 2017	December 31, 2016
Repurchase agreement borrowings secured by Agency MBS	$ 2,671,245	$ 3,095,020
Fair value of Agency MBS pledged as collateral under repurchase agreements	$ 2,888,156	$ 3,280,689
Weighted average haircut on Agency MBS *(1)*	4.62%	4.67%
Repurchase agreement borrowings secured by Legacy Non-Agency MBS	$ 1,361,866	$ 1,690,937
Fair value of Legacy Non-Agency MBS pledged as collateral under repurchase agreements *(2)*	$ 1,848,134	$ 2,317,708
Weighted average haircut on Legacy Non-Agency MBS *(1)*	22.40%	24.01%
Repurchase agreement borrowings secured by RPL/NPL MBS	$ 798,508	$ 1,943,572
Fair value of RPL/NPL MBS pledged as collateral under repurchase agreements	$ 1,005,757	$ 2,433,711
Weighted average haircut on RPL/NPL MBS *(1)*	21.58%	20.98%
Repurchase agreements secured by U.S. Treasuries	$ 474,726	$ 504,572
Fair value of U.S. Treasuries pledged as collateral under repurchase agreements	$ 475,688	$ 510,767
Weighted average haircut on U.S. Treasuries *(1)*	1.39%	1.60%
Repurchase agreements secured by CRT securities	$ 413,172	$ 271,205
Fair value of CRT securities pledged as collateral under repurchase agreements	$ 530,833	$ 357,488
Weighted average haircut on CRT securities *(1)*	22.05%	23.22%
Repurchase agreements secured by MSR related assets	$ 268,819	$ 135,112
Fair value of MSR related assets pledged as collateral under repurchase agreements	$ 412,674	$ 226,780
Weighted average haircut on MSR related assets *(1)*	33.76%	41.40%
Repurchase agreements secured by residential whole loans *(3)*	$ 883,366	$ 832,060
Fair value of residential whole loans pledged as collateral under repurchase agreements	$ 1,273,955	$ 1,175,088
Weighted average haircut on residential whole loans *(1)*	28.35%	25.03%

(1) Haircut represents the percentage amount by which the collateral value is contractually required to exceed the loan amount.
(2) Includes $172.4 million of Legacy Non-Agency MBS acquired from consolidated VIEs that are eliminated from the Company's consolidated balance sheets at December 31, 2016.
(3) Excludes $259,000 and $210,000 of unamortized debt issuance costs at September 30, 2017 and December 31, 2016, respectively.

The following table presents repricing information about the Company's borrowings under repurchase agreements, which does not reflect the impact of associated derivative hedging instruments, at September 30, 2017 and December 31, 2016:

	September 30, 2017		December 31, 2016	
Time Until Interest Rate Reset	Balance	Weighted Average Interest Rate	Balance	Weighted Average Interest Rate
(Dollars in Thousands)				
Within 30 days	$ 6,378,566	2.15%	$ 7,284,062	1.77%
Over 30 days to 3 months	493,136	2.42	1,188,416	1.91
Total repurchase agreements	6,871,702	2.17%	8,472,478	1.79%
Less debt issuance costs	259		210	
Total repurchase agreements less debt issuance costs	$ 6,871,443		$ 8,472,268	

The following table presents contractual maturity information about the Company's borrowings under repurchase agreements, all of which are accounted for as secured borrowings, at September 30, 2017, and does not reflect the impact of derivative contracts that hedge such repurchase agreements:

	September 30, 2017					
Contractual Maturity	**Overnight**	**Within 30 Days**	**Over 30 Days to 3 Months**	**Over 3 Months to 12 Months**	**Over 12 months**	**Total**
(Dollars in Thousands)						
Agency MBS	$ —	$ 2,590,020	$ 81,225	$ —	$ —	$ 2,671,245
Legacy Non-Agency MBS	—	746,798	478,331	136,737	—	1,361,866
RPL/NPL MBS	—	359,471	316,638	122,399	—	798,508
U.S. Treasuries	—	474,726	—	—	—	474,726
CRT securities	—	409,123	4,049	—	—	413,172
MSR related assets	—	268,819	—	—	—	268,819
Residential whole loans	—	—	—	821,770	61,596	883,366
Total *(1)*	$ —	$ 4,848,957	$ 880,243	$ 1,080,906	$ 61,596	$ 6,871,702
Weighted Average Interest Rate	—%	1.83%	2.56%	3.31%	3.68%	2.17%
Gross amount of recognized liabilities for repurchase agreements in Note 8						$ 6,871,702
Amounts related to repurchase agreements not included in offsetting disclosure in Note 8						$ —

(1) Excludes $259,000 of unamortized debt issuance costs at September 30, 2017.

The Company had repurchase agreements with 31 counterparties at both September 30, 2017 and December 31, 2016. The following table presents information with respect to each counterparty under repurchase agreements for which the Company had greater than 5% of stockholders' equity at risk in the aggregate at September 30, 2017:

	September 30, 2017			
Counterparty	**Counterparty Rating (1)**	**Amount at Risk (2)**	**Weighted Average Months to Maturity for Repurchase Agreements**	**Percent of Stockholders' Equity**
(Dollars in Thousands)				
Wells Fargo *(3)*	AA-/Aa2/AA-	$ 325,023	6	10.0%
Credit Suisse *(4)*	BBB+/Aa2/A-	235,579	2	7.2
UBS *(5)*	A+/A1/A+	167,329	8	5.1

(1) As rated at September 30, 2017 by S&P, Moody's and Fitch, Inc., respectively. The counterparty rating presented is the lowest published for these entities.
(2) The amount at risk reflects the difference between (a) the amount loaned to the Company through repurchase agreements, including interest payable, and (b) the cash and the fair value of the securities pledged by the Company as collateral, including accrued interest receivable on such securities.
(3) Includes $313.8 million at risk with Wells Fargo Bank, NA and $11.2 million at risk with Wells Fargo Securities LLC.
(4) Includes $9.7 million at risk with Credit Suisse AG, Cayman Islands and $225.9 million at risk with Credit Suisse. Counterparty ratings are not published for Credit Suisse AG, Cayman Islands.
(5) Includes Non-Agency MBS pledged as collateral with contemporaneous repurchase and reverse repurchase agreements.

FHLB Advances

In January 2016, the FHFA released its final rule amending its regulation on FHLB membership, which, among other things, provided termination rules for then current captive insurance members. As a result of such regulation, MFA Insurance was required to repay all of its outstanding FHLB advances by February 19, 2017 and its FHLB membership was terminated on such date. At December 31, 2016, MFA Insurance had $215.0 million in outstanding long-term secured FHLB advances with a weighted average borrowing rate of 0.78%. Interest payable on outstanding FHLB advances at December 31, 2016 totaled approximately $42,000 and was included in Other liabilities on the Company's consolidated balance sheets.

7. Collateral Positions

The Company pledges securities or cash as collateral to its counterparties pursuant to its borrowings under repurchase agreements and for initial margin payments on centrally cleared Swaps. In addition, the Company receives securities or cash as collateral pursuant to financing provided under reverse repurchase agreements. The Company exchanges collateral with its counterparties based on changes in the fair value, notional amount and term of the associated repurchase agreements and Swap contracts, as applicable. In connection with these margining practices, either the Company or its counterparty may be required to pledge cash or securities as collateral. When the Company's pledged collateral exceeds the required margin, the Company may initiate a reverse margin call, at which time the counterparty may either return the excess collateral or provide collateral to the Company in the form of cash or equivalent securities.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
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The following table summarizes the fair value of the Company's collateral positions, which includes collateral pledged and collateral held, with respect to its borrowings under repurchase agreements, reverse repurchase agreements, derivative hedging instruments and FHLB advances at September 30, 2017 and December 31, 2016:

	September 30, 2017		December 31, 2016	
(In Thousands)	**Assets Pledged**	**Collateral Held**	**Assets Pledged**	**Collateral Held**
Derivative Hedging Instruments:				
Agency MBS	$ 23,197	$ —	$ 32,468	$ —
Cash *(1)*	6,524	—	53,849	—
	29,721	—	86,317	—
Repurchase Agreement Borrowings:				
Agency MBS	2,888,156	—	3,280,689	—
Legacy Non-Agency MBS *(2)(3)*	1,848,134	—	2,317,708	—
RPL/NPL MBS	1,005,757	—	2,433,711	—
U.S. Treasury securities	475,688	—	510,767	—
CRT securities	530,833	—	357,488	—
MSR related assets	412,674	—	226,780	—
Residential whole loans	1,273,955	—	1,175,088	—
Cash *(1)*	8,916	—	4,614	—
	8,444,113	—	10,306,845	—
FHLB Advances:				
Agency MBS	—	—	227,244	—
	—	—	227,244	—
Reverse Repurchase Agreements:				
U.S. Treasury securities	—	507,318	—	510,767
	—	507,318	—	510,767
Total	$ 8,473,834	$ 507,318	$ 10,620,406	$ 510,767

(1) Cash pledged as collateral is reported as "Restricted cash" on the Company's consolidated balance sheets.
(2) Includes $172.4 million of Legacy Non-Agency MBS acquired in connection with resecuritization transactions from consolidated VIEs that are eliminated from the Company's consolidated balance sheets at December 31, 2016.
(3) In addition, at September 30, 2017 and December 31, 2016, $689.3 million and $688.2 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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

The following table presents detailed information about the Company's assets pledged as collateral pursuant to its borrowings under repurchase agreements and derivative hedging instruments at September 30, 2017:

	September 30, 2017						
	Assets Pledged Under Repurchase Agreements			Assets Pledged Against Derivative Hedging Instruments			
(In Thousands)	Fair Value	Amortized Cost	Accrued Interest on Pledged Assets	Fair Value/ Carrying Value	Amortized Cost	Accrued Interest on Pledged Assets	Total Fair Value of Assets Pledged and Accrued Interest
Agency MBS	$ 2,888,156	$ 2,890,386	$ 7,461	$ 23,197	$ 23,763	$ 48	$ 2,918,862
Legacy Non-Agency MBS *(1)*	1,848,134	1,432,145	6,711	—	—	—	1,854,845
RPL/NPL MBS	1,005,757	1,001,548	757	—	—	—	1,006,514
U.S. Treasuries	475,688	475,342	—	—	—	—	475,688
CRT securities	530,833	491,490	418	—	—	—	531,251
MSR related assets	412,674	411,277	942	—	—	—	413,616
Residential whole loans *(2)*	1,273,955	1,251,400	2,974	—	—	—	1,276,929
Cash *(3)*	8,916	8,916	—	6,524	6,524	—	15,440
Total	$ 8,444,113	$ 7,962,504	$ 19,263	$ 29,721	$ 30,287	$ 48	$ 8,493,145

(1) In addition, at September 30, 2017, $689.3 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.

(2) Includes residential whole loans held at carrying value with an aggregate fair value of $370.5 million and aggregate amortized cost of $347.9 million and residential whole loans held at fair value with an aggregate fair value and amortized cost of $903.5 million.

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

8. 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 September 30, 2017 and December 31, 2016:

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	
September 30, 2017						
Swaps, at fair value	$ —	$ —	$ —	$ —	$ —	$ —
Total	$ —	$ —	$ —	$ —	$ —	$ —
December 31, 2016						
Swaps, at fair value	$ 233	$ —	$ 233	$ (233)	$ —	$ —
Total	$ 233	$ —	$ 233	$ (233)	$ —	$ —

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)*	
September 30, 2017						
Swaps, at fair value *(2)*	$ —	$ —	$ —	$ —	$ —	$ —
Repurchase agreements and other advances *(3)(4)*	6,871,702	—	6,871,702	(6,862,786)	(8,916)	—
Total	$ 6,871,702	$ —	$ 6,871,702	$ (6,862,786)	$ (8,916)	$ —
December 31, 2016						
Swaps, at fair value *(2)*	$ 46,954	$ —	$ 46,954	$ —	$ (46,954)	$ —
Repurchase agreements and other advances *(3)(4)*	8,687,478	—	8,687,478	(8,682,864)	(4,614)	—
Total	$ 8,734,432	$ —	$ 8,734,432	$ (8,682,864)	$ (51,568)	$ —

(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 $6.5 million and $6.9 million at September 30, 2017 and December 31, 2016, respectively.

(2) The fair value of securities pledged against the Company's Swaps was $23.2 million and $32.5 million at September 30, 2017 and December 31, 2016, respectively. Beginning in January 2017, variation margin payments on the Company's cleared Swaps are treated as a legal settlement of the exposure under the Swap contract. Previously such payments were treated as collateral pledged against the exposure under the Swap contract. The effect of this change is to reduce what would have otherwise been reported as fair value of the Swap.

(3) The fair value of financial instruments pledged against the Company's repurchase agreements and other advances was $8.4 billion and $10.5 billion at September 30, 2017 and December 31, 2016, respectively.

(4) Excludes $259,000 and $210,000 of unamortized debt issuance costs at September 30, 2017 and December 31, 2016, respectively.

Nature of Setoff Rights

In the Company's consolidated balance sheets, all balances associated with the repurchase agreement and Swap transactions that are not centrally cleared 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.

9. 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.

10. Other Liabilities

The following table presents the components of the Company's Other liabilities at September 30, 2017 and December 31, 2016:

(In Thousands)	September 30, 2017	December 31, 2016
Securitized debt *(1)*	$ 137,327	$ —
Dividends and dividend equivalents payable	79,605	74,657
Accrued interest payable	11,223	14,129
Swaps, at fair value *(2)*	—	46,954
Accrued expenses and other liabilities	18,123	19,612
Total Other Liabilities	$ 246,278	$ 155,352

(1) Securitized debt represents third-party liabilities of consolidated VIEs and excludes liabilities of the VIEs acquired by the Company that are eliminated in consolidation. The third-party beneficial interest holders in the VIEs have no recourse to the general credit of the Company. (See Notes 11 and 16 for further discussion.)

(2) Beginning in January 2017, variation margin payments on the Company's cleared Swaps are treated as a legal settlement of the exposure under the Swap contract. Previously such payments were treated as collateral pledged against the exposure under the Swap contract. The effect of this change is to reduce what would have otherwise been reported as fair value of the Swap.

11. Commitments and Contingencies

(a) 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 June 30, 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, 2021 for its off-site back-up facility located in Rockville Centre, New York, which provides for, among other things, lease payments totaling $32,000, annually.

(b) Corporate Loan

The Company has entered into a loan agreement with an entity that originates loans and owns the related MSRs. The loan is secured by certain U.S. Government, Agency and private-label MSRs, as well as other unencumbered assets owned by the borrower. Under the terms of the loan agreement, the Company has committed to lend $130.0 million of which approximately $101.1 million was drawn at September 30, 2017.

(c) Representations and Warranties in Connection with Loan Securitization Transaction

In connection with the loan securitization transaction entered into by the Company in June 2017 (See Note 16 for further discussion), the Company has the obligation under certain circumstances to repurchase assets previously transferred to a securitization vehicle upon breach of certain representations and warranties. As of September 30, 2017, the Company had no reserve established for repurchases of loans and was not aware of any repurchase claims that would require the establishment of such a reserve.

(d) MBS Purchase Commitments

At September 30, 2017, the Company had commitments to purchase Non-Agency MBS at an estimated price of $3.6 million. The expected settlement amounts are included in the Non-Agency MBS balances presented at fair value on the Company's consolidated balance sheets, with a corresponding liability included in Payable for unsettled MBS and residential whole loan purchases.

(e) Residential Whole Loan Purchase Commitments

At September 30, 2017, the Company has agreed, subject to the completion of due diligence, and customary closing conditions, to purchase residential whole loans at fair value at an aggregate estimated purchase price of $120.4 million. The expected settlement amounts are included in the Company's consolidated balance sheets in Residential whole loans, at fair value, with a corresponding liability included in Payable for unsettled MBS and residential whole loan purchases.

12. 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 American LLC 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, 2017 through September 30, 2017:

Declaration Date	Record Date	Payment Date	Dividend Per Share
August 10, 2017	September 1, 2017	September 29, 2017	$ 0.46875
May 16, 2017	June 2, 2017	June 30, 2017	0.46875
February 17, 2017	March 6, 2017	March 31, 2017	0.46875

(b) Dividends on Common Stock

The following table presents cash dividends declared by the Company on its common stock from January 1, 2017 through September 30, 2017:

Declaration Date *(1)*	Record Date	Payment Date	Dividend Per Share
September 14, 2017	September 28, 2017	October 31, 2017	$ 0.20 *(1)*
June 12, 2017	June 29, 2017	July 28, 2017	0.20
March 8, 2017	March 29, 2017	April 28, 2017	0.20

(1) At September 30, 2017, the Company had accrued dividends and dividend equivalents payable of $79.6 million related to the common stock dividend declared on September 14, 2017.

(c) Public Offering of Common Stock

The table below presents information with respect to shares of the Company's common stock issued through public offerings during the nine months ended September 30, 2017. The Company did not issue any common stock through public offerings during the nine months ended September 30, 2016.

Share Issue Date	Shares Issued	Gross Proceeds Per Share	Gross Proceeds
(In Thousands, Except Per Share Amounts)			
May 10, 2017	23,000	$ 7.85	$ 180,550 *(1)*

(1) The Company incurred approximately $412,000 of expenses in connection with this equity offering.

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

On September 16, 2016, 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 September 30, 2017, 13.0 million shares of common stock remained available for issuance pursuant to the DRSPP shelf registration statement.

During the three and nine months ended September 30, 2017, the Company issued 513,509 and 1,516,307 shares of common stock through the DRSPP, raising net proceeds of approximately $4.3 million and $12.2 million, respectively. From the inception of the DRSPP in September 2003 through September 30, 2017, the Company issued 32,899,092 shares pursuant to the DRSPP, raising net proceeds of $275.1 million.

(e) 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 nine months ended September 30, 2017. At September 30, 2017, 6,616,355 shares remained authorized for repurchase under the Repurchase Program.

(f) 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 nine months ended September 30, 2017:

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
(In Thousands)	Net Unrealized Gain/(Loss) on AFS Securities	Net (Loss)/Gain on Swaps	Total AOCI	Net Unrealized Gain/(Loss) on AFS Securities	Net (Loss)/Gain on Swaps	Total AOCI
Balance at beginning of period	$ 668,223	$ (35,841)	$ 632,382	$ 620,403	$ (46,721)	$ 573,682
OCI before reclassifications	6,988	5,791	12,779	71,188	16,671	87,859
Amounts reclassified from AOCI *(1)*	(14,935)	—	(14,935)	(31,315)	—	(31,315)
Net OCI during the period *(2)*	(7,947)	5,791	(2,156)	39,873	16,671	56,544
Balance at end of period	$ 660,276	$ (30,050)	$ 630,226	$ 660,276	$ (30,050)	$ 630,226

(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 changes in the balances of each component of the Company's AOCI for the three and nine months ended September 30, 2016:

	Three Months Ended September 30, 2016			Nine Months Ended September 30, 2016		
(In Thousands)	Net Unrealized Gain/(Loss) on AFS Securities	Net (Loss)/Gain on Swaps	Total AOCI	Net Unrealized Gain/(Loss) on AFS Securities	Net (Loss)/Gain on Swaps	Total AOCI
Balance at beginning of period	$ 625,697	$ (131,971)	$ 493,726	$ 585,250	$ (69,399)	$ 515,851
OCI before reclassifications	64,350	22,769	87,119	124,763	(39,803)	84,960
Amounts reclassified from AOCI *(1)*	(7,314)	—	(7,314)	(27,280)	—	(27,280)
Net OCI during the period *(2)*	57,036	22,769	79,805	97,483	(39,803)	57,680
Balance at end of period	$ 682,733	$ (109,202)	$ 573,531	$ 682,733	$ (109,202)	$ 573,531

(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 nine months ended September 30, 2017:

Details about AOCI Components	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017	Affected Line Item in the Statement Where Net Income is Presented
	Amounts Reclassified from AOCI		
(In Thousands)			
AFS Securities:			
Realized gain on sale of securities	$ (14,935)	$ (30,283)	Net gain on sales of MBS and U.S. Treasury securities
OTTI recognized in earnings	—	(1,032)	Net impairment losses recognized in earnings
Total AFS Securities	$ (14,935)	$ (31,315)	
Total reclassifications for period	$ (14,935)	$ (31,315)	

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

Details about AOCI Components	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016	Affected Line Item in the Statement Where Net Income is Presented
	Amounts Reclassified from AOCI		
(In Thousands)			
AFS Securities:			
Realized gain on sale of securities	$ (6,829)	$ (26,795)	Net gain on sales of MBS and U.S. Treasury securities
OTTI recognized in earnings	(485)	(485)	Net impairment losses recognized in earnings
Total AFS Securities	$ (7,314)	$ (27,280)	
Total reclassifications for period	$ (7,314)	$ (27,280)	

At September 30, 2017 and December 31, 2016, the Company had unrealized losses recorded in AOCI of approximately $103,000 and $1.7 million, respectively, on securities for which OTTI had been recognized in earnings in prior periods.

13. EPS Calculation

The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands, Except Per Share Amounts)	2017	2016	2017	2016
Numerator:				
Net income	$ 63,805	$ 83,011	$ 221,799	$ 240,031
Dividends declared on preferred stock	(3,750)	(3,750)	(11,250)	(11,250)
Dividends, dividend equivalents and undistributed earnings allocated to participating securities	(409)	(442)	(1,299)	(1,255)
Net income to common stockholders - basic and diluted	$ 59,646	$ 78,819	$ 209,250	$ 227,526
Denominator:				
Weighted average common shares for basic and diluted earnings per share *(1)*	396,698	373,141	385,282	373,011
Basic and diluted earnings per share	$ 0.15	$ 0.21	$ 0.54	$ 0.61

(1) At September 30, 2017, the Company had an aggregate of 2.5 million equity instruments outstanding that were not included in the calculation of diluted EPS for the three and nine months ended September 30, 2017, as their inclusion would have been anti-dilutive. These equity instruments were comprised of approximately 4,000 shares of restricted common stock with a weighted average grant date fair value of $7.12 and approximately 2.5 million RSUs (based on current estimate of expected share settlement amount) with a weighted average grant date fair value of $6.49. These equity instruments may have a dilutive impact on future EPS.

14. 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 September 30, 2017, approximately 6.9 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 1.5 million 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.

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 of the Board (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 September 30, 2017 are designated to be settled in shares of the Company's common stock. The Company did not grant any RSUs during the three months ended September 30, 2017 and 2016 and granted 898,945 and 728,195 RSUs during the nine months ended September 30, 2017 and 2016, respectively. There were no RSUs forfeited during the nine months ended September 30,

2017. During the nine months ended September 30, 2016 an aggregate of 10,000 RSUs were forfeited. All RSUs outstanding at September 30, 2017 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 September 30, 2017 and December 31, 2016, the Company had unrecognized compensation expense of $5.0 million and $3.6 million, respectively, related to RSUs. The unrecognized compensation expense at September 30, 2017 is expected to be recognized over a weighted average period of 1.9 years.

Restricted Stock

The Company did not award any shares of restricted common stock during the nine months ended September 30, 2017 and 2016. At September 30, 2017 and December 31, 2016, the Company had unrecognized compensation expense of approximately $28,000 and $203,000, respectively, related to the unvested shares of restricted common stock. The Company had accrued dividends payable of approximately $13,000 and $55,000 on unvested shares of restricted stock at September 30, 2017 and December 31, 2016, respectively. The unrecognized compensation expense at September 30, 2017 is expected to be recognized over a weighted average period of three months.

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 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 did not make any payments in respect of such instruments during the nine months ended September 30, 2017 and made payments of approximately $2,000 and $5,000 in respect of such separate instruments during the three and nine months ended September 30, 2016, respectively. At September 30, 2017, there were no dividend equivalent rights outstanding, which had been awarded separately from, but in connection with, grants of RSUs made in prior years.

Options

The Company did not grant any stock options during the nine months ended September 30, 2017 and 2016. At September 30, 2017, the Company had no stock options outstanding.

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 nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2017 *(1)***	**2016**	**2017 *(1)***	**2016**
RSUs	$ 1,836	$ 948	$ 5,194	$ 3,642
Restricted shares of common stock	74	153	175	457
Dividend equivalent rights	—	—	—	44
Total	$ 1,910	$ 1,101	$ 5,369	$ 4,143

(1) Equity-based compensation expense for the three and nine months ended September 30, 2017 includes a one-time expense of approximately $900,000 for the accelerated vesting of certain time-based equity awards arising from the death of the Company's former Chief Executive Officer.

(b) Employment Agreements

At September 30, 2017, the Company had employment agreements with three 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.

(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 nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2017**	**2016**	**2017**	**2016**
Non-employee directors	$ 125	$ 52	$ 339	$ 173
Total	$ 125	$ 52	$ 339	$ 173

The following table presents the aggregate amount of income deferred by participants of the Deferred Plans through September 30, 2017 and December 31, 2016 that had not been distributed and the Company's associated liability for such deferrals at September 30, 2017 and December 31, 2016:

	September 30, 2017		December 31, 2016	
(In Thousands)	**Undistributed Income Deferred *(1)***	**Liability Under Deferred Plans**	**Undistributed Income Deferred *(1)***	**Liability Under Deferred Plans**
Non-employee directors	$ 1,525	$ 2,061	$ 1,066	$ 1,263
Total	$ 1,525	$ 2,061	$ 1,066	$ 1,263

(1) Represents the cumulative amounts that were deferred by participants through September 30, 2017 and December 31, 2016, 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 September 30, 2017 and 2016, the Company recognized expenses for matching contributions of $87,500 and $86,000, respectively, and $262,500 and $259,000 and for the nine months ended September 30, 2017 and 2016, respectively.

15. 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 Legacy Non-Agency MBS, RPL/NPL MBS and CRT securities are valued using various market data points as described above, which management considers directly or indirectly observable parameters. Accordingly, these securities are classified as Level 2 in the fair value hierarchy.

Term Notes Backed by MSR Related Collateral

The Company's valuation process for term notes backed by MSR related collateral considers a number of factors, including indicative valuations obtained from a third-party pricing service that are reviewed by the Company and may be adjusted to ensure they reflect a realistic exit price at the valuation date given the structural features of these securities. As this process includes significant unobservable inputs, these securities are classified as Level 3 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 valuations obtained from a third-party who specializes in providing valuations of residential mortgage loans trading activity observed in the marketplace. The Company's residential whole loans held at fair value are classified as Level 3 in the fair value hierarchy.

Swaps

As of September 30, 2017, all of the Company's Swaps are cleared by a central clearing house. Valuations provided by the clearing house are used for purposes of determining the fair value of the Company's Swaps. Such valuations obtained are tested with internally developed models that apply readily observable market parameters. As the Company's Swaps are subject to the clearing house's margin requirements, no credit valuation adjustment was considered necessary in determining the fair value of such instruments. Beginning in January 2017, variation margin payments on the Company's cleared Swaps are treated as a legal settlement of the exposure under the Swap contract. Previously such payments were treated as collateral pledged against the exposure under the Swap contract. The effect of this change is to reduce what would have otherwise been reported as fair value of the Swap. Swaps are classified as Level 2 in the fair value hierarchy.

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The following tables present the Company's financial instruments carried at fair value on a recurring basis as of September 30, 2017 and December 31, 2016, on the consolidated balance sheets by the valuation hierarchy, as previously described:

Fair Value at September 30, 2017

(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Agency MBS	$ —	$ 3,019,304	$ —	$ 3,019,304
Non-Agency MBS	—	3,911,660	—	3,911,660
CRT securities	—	653,633	—	653,633
Term notes backed by MSR related collateral	—	—	311,563	311,563
Residential whole loans, at fair value	—	—	1,103,518	1,103,518
Securities obtained and pledged as collateral	507,318	—	—	507,318
Total assets carried at fair value	$ 507,318	$ 7,584,597	$ 1,415,081	$ 9,506,996
Liabilities:				
Swaps	$ —	$ —	$ —	$ —
Obligation to return securities obtained as collateral	507,318	—	—	507,318
Total liabilities carried at fair value	$ 507,318	$ —	$ —	$ 507,318

Fair Value at December 31, 2016

(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Agency MBS	$ —	$ 3,738,497	$ —	$ 3,738,497
Non-Agency MBS, including MBS transferred to consolidated VIEs	—	5,684,836	—	5,684,836
CRT securities	—	404,850	—	404,850
Term notes backed by MSR related collateral	—	140,980	—	140,980
Residential whole loans, at fair value	—	—	814,682	814,682
Securities obtained and pledged as collateral	510,767	—	—	510,767
Swaps	—	233	—	233
Total assets carried at fair value	$ 510,767	$ 9,969,396	$ 814,682	$ 11,294,845
Liabilities:				
Swaps	$ —	$ 46,954	$ —	$ 46,954
Obligation to return securities obtained as collateral	510,767	—	—	510,767
Total liabilities carried at fair value	$ 510,767	$ 46,954	$ —	$ 557,721

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

The following table presents additional information for the three and nine months ended September 30, 2017 and 2016 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:

	Residential Whole Loans, at Fair Value *(1)*			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2017 *(2)*	2016	2017 *(2)*	2016
Balance at beginning of period	$ 744,072	$ 684,582	$ 814,682	$ 623,276
Purchases and capitalized advances	284,930	50,071	295,094	169,830
Changes in fair value recorded in Net gain on residential whole loans held at fair value	5,289	10,913	12,499	25,529
Collection of principal, net of liquidation gains/losses	(17,670)	(18,119)	(53,366)	(48,909)
Repurchases	(257)	—	(1,013)	—
Transfer to REO	(33,214)	(22,985)	(84,746)	(65,264)
Balance at end of period	$ 983,150	$ 704,462	$ 983,150	$ 704,462

(1) Excluded from the table above are approximately $120.4 million and $92.8 million of residential whole loans held at fair value for which the closing of the purchase transaction had not occurred as of September 30, 2017 and 2016, respectively.
(2) Included in the activity presented for the three and nine months ended September 30, 2017 are approximately $92.7 million of loans the Company committed to purchase during the three months ended June 30, 2017, but for which the closing of the purchase transaction occurred during the three months ended September 30, 2017.

The following table presents additional information for the three and nine months ended September 30, 2017 and 2016 about the Company's investments in term notes backed by MSR related collateral held at fair value, which are classified as Level 3 and measured at fair value on a recurring basis:

	Term Notes Backed by MSR Related Collateral			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2017	2016	2017 *(1)*	2016
Balance at beginning of period	$ 273,961	$ —	$ —	$ —
Purchases	161,000	—	311,000	—
Collection of principal	(123,961)	—	(140,980)	—
Changes in unrealized gain/losses	563	—	563	—
Transfers from Level 2 to Level 3 *(1)*	—	—	140,980	—
Balance at end of period	$ 311,563	$ —	$ 311,563	$ —

(1) Investments in term notes backed by MSR related collateral were transferred from Level 2 to Level 3 during the nine months ended September 30, 2017 as there has been very limited secondary market trading in these securities since issuance. Transfers between levels are deemed to take place on the first day of the reporting period in which the transfer has taken place.

The Company did not transfer any assets or liabilities from one level to another during the three months ended September 30, 2017 and three and nine months ended September 30, 2016.

Fair Value Methodology for Level 3 Financial Instruments

Residential Whole Loans, at Fair Value

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 September 30, 2017 and December 31, 2016:

	September 30, 2017				
(Dollars in Thousands)	**Fair Value *(1)***	**Valuation Technique**	**Unobservable Input**	**Weighted Average *(2)***	**Range**
Residential whole loans, at fair value	$ 304,166	Discounted cash flow	Discount rate	6.1%	5.0-8.0%
			Prepayment rate	7.7%	0.0-13.0%
			Default rate	4.1%	0.0-9.8%
			Loss severity	12.6%	0.0-100.0%
	$ 488,654	Liquidation model	Discount rate	8.4%	6.7-50.0%
			Annual change in home prices	2.7%	(4.5)-9.7%
			Liquidation timeline (in years)	1.6	0.1-4.5
			Current value of underlying properties *(3)*	$ 669	$15-$4,900
Total	$ 792,820				

	December 31, 2016				
(Dollars in Thousands)	**Fair Value *(1)***	**Valuation Technique**	**Unobservable Input**	**Weighted Average *(2)***	**Range**
Residential whole loans, at fair value	$ 253,287	Discounted cash flow	Discount rate	6.6%	5.0-7.7%
			Prepayment rate	7.6%	0.0-12.0%
			Default rate	2.9%	0.0-9.7%
			Loss severity	13.0%	0.0-77.5%
	$ 516,014	Liquidation model	Discount rate	7.7%	6.8-26.9%
			Annual change in home prices	1.7%	(9.2)-7.7%
			Liquidation timeline (in years)	1.6	0.1-4.4
			Current value of underlying properties *(3)*	$ 634	$5-$4,900
Total	$ 769,301				

(1) Excludes approximately $310.7 million and $45.4 million of loans for which management considers the purchase price continues to reflect the fair value of such loans at September 30, 2017 and December 31, 2016, respectively.
(2) Amounts are weighted based on the fair value of the underlying loan.
(3) The simple average value of the properties underlying residential whole loans held at fair value valued via a liquidation model was approximately $353,000 and $320,000 as of September 30, 2017 and December 31, 2016, respectively.

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 September 30, 2017 and December 31, 2016:

	September 30, 2017 *(1)*			December 31, 2016		
(In Thousands)	**Fair Value**	**Unpaid Principal Balance**	**Difference**	**Fair Value**	**Unpaid Principal Balance**	**Difference**
Residential whole loans, at fair value						
Total loans	$ 983,150	$ 1,178,866	$ (195,716)	$ 814,682	$ 966,174	$ (151,492)
Loans 90 days or more past due	$ 690,924	$ 853,655	$ (162,731)	$ 570,025	$ 695,282	$ (125,257)

(1) Excludes approximately $120.4 million of residential whole loans held at fair value for which the closing of the purchase transaction had not occurred as of September 30, 2017.

Term Notes Backed by MSR Related Collateral

The Company's valuation process for term notes backed by MSR related collateral considers a number of factors, including a comparable bond analysis performed by a third-party pricing service which involves determining a pricing spread at issuance of the term note. The pricing spread is used at each subsequent valuation date to determine an implied yield to maturity of the term note, which is used to derive an indicative market value for the security. This indicative market value is further reviewed by the Company and may be adjusted to ensure it reflects a realistic exit price at the valuation date given the structural features of these securities. At September 30, 2017, the indicative implied yields used in the valuation of these securities ranged from 5.6% to 6.1%. The weighted average indicative yield to maturity was 5.72%. Other factors taken into consideration include indicative values provided by repurchase agreement counterparties, estimated changes in fair value of the related underlying MSR collateral and the financial performance of the ultimate parent or sponsoring entity of the issuer, who has provided a guarantee that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the related underlying MSR collateral be insufficient.

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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

The following table presents the carrying values and estimated fair values of the Company’s financial instruments at September 30, 2017 and December 31, 2016:

	September 30, 2017		December 31, 2016	
(In Thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:				
Agency MBS	$ 3,019,304	$ 3,019,304	$ 3,738,497	$ 3,738,497
Non-Agency MBS, including MBS transferred to consolidated VIEs	3,911,660	3,911,660	5,684,836	5,684,836
CRT securities	653,633	653,633	404,850	404,850
MSR related assets	411,840	412,674	226,780	226,780
Residential whole loans, at carrying value	639,216	693,795	590,540	621,548
Residential whole loans, at fair value	1,103,518	1,103,518	814,682	814,682
Securities obtained and pledged as collateral	507,318	507,318	510,767	510,767
Cash and cash equivalents	608,173	608,173	260,112	260,112
Restricted cash	15,440	15,440	58,463	58,463
Swaps	—	—	233	233
Financial Liabilities *(1)*:				
Repurchase agreements	6,871,443	6,871,553	8,472,268	8,472,078
FHLB advances	—	—	215,000	215,000
Obligation to return securities obtained as collateral	507,318	507,318	510,767	510,767
Securitized debt	137,327	139,064	—	—
Senior Notes	96,763	102,231	96,733	101,111
Swaps	—	—	46,954	46,954

(1) Carrying value of securitized debt, Senior Notes 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 discussed on pages 44-49, 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 that are not reported at fair value on a recurring basis:

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 September 30, 2017 and December 31, 2016, 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.

Corporate Loan: The Company determines the fair value of this loan after considering recent past and expected future loan performance, recent financial performance of the borrower and estimates of the current value of the underlying collateral, which includes certain MSRs and other assets of the borrower that are pledged to secure the borrowing. The Company’s investment in this term loan is classified as Level 3 in the fair value hierarchy.

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: As previously discussed, the Company did not have any FHLB advances as of September 30, 2017. FHLB advances at December 31, 2016 reflected collateralized borrowings at variable market interest rates that reset on a monthly basis. Accordingly, the carrying amount of FHLB advances were considered to approximate fair value. The Company's FHLB advances at December 31, 2016 were 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.

The Company holds REO at the lower of the current carrying amount or fair value less estimated selling costs. At September 30, 2017 and December 31, 2016, the Company's REO had an aggregate carrying value of $138.0 million and $80.5 million, and an aggregate estimated fair value of $159.3 million and $91.1 million, respectively. The Company classifies fair value measurements of REO as Level 3 in the fair value hierarchy.

16. 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 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.

The Company has in prior years entered into several MBS resecuritization transactions and during the second quarter of 2017, a loan securitization transaction that resulted in the Company consolidating as VIEs the SPEs that were created to facilitate these transactions. See Note 2(s) for a discussion of the accounting policies applied to the consolidation of VIEs and transfers of financial assets in connection with securitization and resecuritization transactions.

The Company has engaged in loan securitization and MBS resecuritization transactions primarily for the purpose of obtaining improved overall financing terms as well as non-recourse financing on a portion of its residential whole loan and Non-Agency MBS portfolios. 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 assets transferred to the VIEs.

Loan Securitization Transaction

In June 2017, as part of a loan securitization transaction, the Company sold residential whole loans with an aggregate unpaid principal balance of approximately $219.8 million, comprised of approximately $137.0 million Residential whole loans, at carrying value (with unpaid principal balance of $176.6 million) and approximately $44.4 million of Residential whole loans, at fair value (with unpaid principal balance of $43.2 million) to MFA 2017-RPL1 Trust, which the Company consolidates as a VIE. In connection with this transaction, third-party investors purchased $147.8 million face amount of fixed-rate, sequential senior and mezzanine bonds ("Sold Bonds") issued by the VIE at a weighted average fixed-rate of 2.753% and the Company acquired $72.0 million face amount of four classes of rated and non-rated certificates issued by this trust, which together provide credit support to the Sold Bonds, and received $147.8 million in cash, excluding expenses, accrued interest and underwriting fees. The Company also acquired two non-rated, variable-rate interest-only certificates issued by the trust, each with a notional amount of $219.8 million in connection with the transaction.

As of September 30, 2017, as a result of the transaction described above, securitized loans with a carrying value of approximately $131.3 million are included in “Residential whole loans, at carrying value” and securitized loans with a fair value of approximately $40.4 million are included in “Residential whole loans, at fair value,” on the Company’s consolidated balance sheets. As of September 30, 2017, the aggregate carrying value of Sold Bonds issued by consolidated VIEs was $137.3 million. These Sold Bonds are disclosed as “Securitized debt” and are included in Other liabilities on the Company’s consolidated balance sheets. The holders of the Sold 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 residential whole loans 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.

Resecuritization Transactions

During the first quarter of 2017, the Company entered into a transaction to exchange the remaining beneficial interests issued by the WFMLT 2012-RR1 (the “Trust”) and held by the Company for the underlying securities that had previously been transferred to and held by the Trust. Following the completion of this transaction, the remaining beneficial interests were cancelled and the Trust was terminated.

For financial reporting purposes, the exchange transaction and termination of this financing structure 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 $47.1 million, or $0.12 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 September 30, 2017 and interest income from the underlying securities from the date of exchange transaction through September 30, 2017 is reported as Interest income from Non-Agency MBS in the Company’s consolidated statements of operations.

As of September 30, 2017 the Company did not have any Non-Agency MBS that were resecuritized as described above. At December 31, 2016, the aggregate fair value of the Non-Agency MBS that were resecuritized as described above was $174.4 million. These assets were included in the Company’s consolidated balance sheets and disclosed as “Non-Agency MBS transferred to consolidated VIEs, at fair value.”

The Company concluded that the entities created to facilitate these MBS resecuritization and loan securitization transactions are VIEs. The Company then completed an analysis of whether each VIE created to facilitate the securitization and resecuritization transactions 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 determined that it was required to consolidate each VIE created to facilitate these loan securitization and MBS resecuritization transactions.

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

Residential Whole Loans (including Residential Whole Loans transferred to consolidated VIEs)

Included on the Company's consolidated balance sheets as of September 30, 2017 and December 31, 2016 are a total of $1.7 billion and $1.4 billion of residential whole loans, of which approximately $639.2 million and $590.5 million are reported at carrying value and $1.1 billion and $814.7 million are reported at fair value, respectively. The inclusion of these assets arises from the Company's interests in certain entities established to acquire the loans and an entity in connection with its loan securitization transaction. The Company has assessed that these entities are required to be consolidated. During the three and nine months ended September 30, 2017, the Company recognized interest income from residential whole loans reported at carrying value of approximately $9.0 million and $26.2 million, respectively. During the three and nine months ended September 30, 2016, the Company recognized interest income from residential whole loans reported at carrying value of approximately $5.9 million and $16.1 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 nine months ended September 30, 2017 of approximately $18.7 million and $48.7 million, respectively. During the three and nine months ended September 30, 2016, the Company recognized net gains on residential whole loans held at fair value of $19.6 million and $47.7 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, 2016.

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" the negative of these words or similar expressions, are 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 residential whole loans and the extent of prepayments, realized losses and changes in the composition of our Agency MBS, Non-Agency MBS and residential whole loan portfolios that may occur during the applicable tax period, including gain or loss on any MBS disposals and whole loan modification foreclosure and liquidation; the timing and amount of distributions to stockholders, which are declared and paid at the discretion of 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, which is dependent on, among other things, the supply of loans offered for sale in the market; expected returns on our investments in nonperforming 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, CRT securities and MSR related assets. 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.

At September 30, 2017, we had total assets of approximately $11.1 billion, of which $6.9 billion, or 62.4%, represented our MBS portfolio. At such date, our MBS portfolio was comprised of $3.0 billion of Agency MBS and $3.9 billion of Non-Agency MBS which includes $2.7 billion of Legacy Non-Agency MBS and $1.2 billion of RPL/NPL MBS that are primarily structured with a contractual coupon step-up feature where the coupon increases up to 300 basis points at 36 months from issuance or sooner. These securities are primarily backed by securitized re-performing and non-performing loans. In addition, at September 30, 2017, we had approximately $1.7 billion in residential whole loans acquired through our consolidated trusts, which represented approximately 15.7% 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, MSR related assets, REO and MBS related receivables.

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.

Our investments in residential mortgage assets expose us to credit risk, generally meaning that we are subject to credit losses due 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 mitigate 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 investments. Our investment process for credit sensitive assets focuses primarily on quantifying and pricing credit risk.

As of September 30, 2017, approximately $3.9 billion, or 56.8%, of our MBS portfolio was in its contractual fixed-rate period or were fixed-rate MBS and approximately $3.0 billion, or 43.2%, 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 an 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 an 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 these investments are accreted to interest income. Purchase premiums, which are primarily carried on our Agency MBS and certain CRT securities, 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.

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 September 30, 2017, our Agency MBS portfolio experienced a weighted average CPR of 16.2%, and our Legacy Non-Agency MBS portfolio experienced a weighted average CPR of 18.7%. Over the last consecutive eight quarters, ending with September 30, 2017, the monthly weighted average CPR on our Agency and Legacy Non-Agency MBS portfolios ranged from a high of 18.4% experienced during the month ended July 31, 2017 to a low of 11.3%, experienced during the month ended February 29, 2016, with an average CPR over such quarters of 15.3%.

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 residential mortgage assets as long-term investments. On at least a quarterly basis, excluding investments for which the fair value option has been elected or for which specialized loan accounting is otherwise applied, we assess our ability and intent to continue to hold each asset and, as part of this process, we monitor our MBS, CRT securities and MSR related assets for other-than-temporary impairment. A change in our ability and/or intent to continue to hold any of these 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 September 30, 2017, we had net unrealized gains on our Non-Agency MBS of $648.4 million, comprised of gross unrealized gains of $648.8 million and gross unrealized losses of $390,000 and net unrealized losses of $2.8 million on our Agency MBS, comprised of gross unrealized losses of $32.9 million and gross unrealized gains of $30.1 million. At September 30, 2017, we did not intend to sell any of our MBS or CRT securities 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 residential mortgage assets. Our residential mortgage investments have longer-term contractual maturities than our borrowings under repurchase agreements. Even though the majority of our investments 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 investments. In order to reduce this interest rate risk exposure, we may enter into derivative instruments, which at September 30, 2017 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 nine months ended September 30, 2017, we did not enter into any new Swaps and had Swaps with an aggregate notional amount of $350.0 million and a weighted average fixed-pay rate of 0.58% amortize and/or expire. At September 30, 2017, we had Swaps designated in hedging relationships with an aggregate notional amount of $2.6 billion with a weighted average fixed-pay rate of 2.04% and a weighted average variable interest rate received of 1.24%.

Recent Market Conditions and Our Strategy

Sadly, during the third quarter of 2017 we lost our former chief executive officer, William S. Gorin, who passed away in August 2017 following a two-year battle with cancer. Shortly prior to Mr. Gorin's passing, our Board of Directors appointed our President and Chief Operating Officer, Craig L. Knutson, as co-CEO, and Mr. Knutson was appointed as our sole CEO following Mr. Gorin's death. In connection with Mr. Gorin's death, we recorded a one-time expense of approximately $5.1 million, which related to our contractual obligations to accelerate the vesting of certain share-based awards previously made to Mr. Gorin and a death benefit payment made to his estate.

At September 30, 2017, our residential mortgage asset portfolio, which includes MBS, residential whole loans, CRT securities and MSR related assets was approximately $9.7 billion compared to $11.5 billion at December 31, 2016. During the three months ended September 30, 2017, we purchased or committed to purchase, through consolidated trusts, for approximately $187.7 million, residential whole loans with an unpaid principal balance of approximately $245.2 million. In addition, we acquired approximately $183.7 million of RPL/NPL MBS, $161.0 million of MSR related assets and $29.1 million of CRT securities.

At September 30, 2017, $3.9 billion, or 40.2% of our residential mortgage asset portfolio, was invested in Non-Agency MBS. During the three months ended September 30, 2017, the fair value of our Non-Agency MBS holdings decreased by $406.7 million. The primary components of the change during the quarter in these Non-Agency MBS include $582.0 million of principal repayments and other principal reductions and the sale of Non-Agency MBS with a fair value of $44.5 million partially offset by $187.4 million of purchases (at a weighted average purchase price of 99% of par), and an increase reflecting Non-Agency MBS price changes of $32.4 million.

At September 30, 2017, $3.0 billion, or 31.0% of our residential mortgage asset portfolio, was invested in Agency MBS. During the three months ended September 30, 2017, the fair value of our Agency MBS decreased by $228.7 million. This was due to $217.8 million of principal repayments, $7.9 million of premium amortization, and $3.0 million in net unrealized losses.

At September 30, 2017, our total recorded investment in residential whole loans was $1.7 billion, or 17.9% of our residential mortgage asset portfolio. Of this amount, $639.2 million is presented as Residential whole loans, at carrying value and $1.1 billion as Residential whole loans, at fair value in our consolidated balance sheets. For the three months ended September 30, 2017, we recognized approximately $9.0 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 5.92% (excluding servicing costs). In addition, we recorded a net gain on residential whole loans held at fair value of $18.7 million in Other Income, net in our consolidated statements of operations for the three months ended September 30, 2017.

At September 30, 2017 our total investment in MSR related assets was $411.8 million. During the three months ended September 30, 2017 we acquired $161.0 million of and had $124.0 million of principal repayments on term notes backed by MSR related collateral. We also acquired $29.1 million of CRT securities, bringing our total investment in these securities to $653.6 million. During the quarter, our CRT portfolio experienced significant price volatility, as markets reacted to concerns related to seasonal hurricanes and other factors. While unrealized losses recognized in net income on this portfolio for the quarter were $5.2 million, our CRT portfolio at September 30, 2017 was in an overall unrealized gain position of $41.0 million.

We will continue to seek investments in residential mortgage assets during the remainder of 2017. The investment landscape is challenging, as market pricing for all asset classes remains high, thereby making it difficult to purchase assets at attractive risk/reward levels. In addition, unlike Agency MBS, certain of our other asset classes are not always available for purchase, as sellers offer these investments from time to time as opposed to more liquid markets which feature active buyers and sellers at nearly all times. We expect that our purchase focus will be primarily on additional credit sensitive residential whole loans, RPL/NPL MBS and MSR related assets. While the third quarter runoff of RPL/NPL MBS slowed considerably from the runoff we experienced in the second quarter (approximately $400 million versus $1.3 billion), we could experience further reduction in this portfolio if issuers continue to call these securities.

Our book value per common share was $7.70 as of September 30, 2017, a decline from book value per common share of $7.76 as of June 30, 2017. This decrease was primarily due to dividends declared during the quarter that exceeded our net income.

At the end of the third quarter of 2017, the average coupon on mortgages underlying our Agency MBS was higher compared to the end of the third quarter of 2016, 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 2.98% for the three months ended September 30, 2017, from 2.83% for the three months ended September 30, 2016 and the net Agency MBS yield increased to 1.97% for the three months ended September 30, 2017 from 1.83% for the three months ended September 30, 2016. The net yield for our Legacy Non-Agency MBS portfolio was 8.93% for the three months ended September 30, 2017 compared to 8.09% for the three months ended September 30, 2016. The increase in the net yield on our Legacy Non-Agency MBS portfolio reflects the impact of the cash proceeds received during 2016 in connection with the settlement of litigation related to certain Countrywide and Citigroup sponsored residential mortgage backed securitization trusts and the improved performance of loans underlying the Legacy Non-Agency MBS portfolio, which have resulted in credit reserve releases. The net yield for our RPL/NPL MBS portfolio was 4.43% for the three months ended September 30, 2017 compared to 3.86% for the three months ended September 30, 2016. The increase in the net yield reflects an increase in the average coupon yield to 4.24% for the three months ended September 30, 2017 from 3.83% for the three months ended September 30, 2016 and higher accretion income recognized in the current quarter due to the impact of redemptions of certain securities that had been previously purchased at a discount.

We believe that our $593.1 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. 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 amortized cost of 71% of face value at September 30, 2017. 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. Lower LTVs lessen the likelihood of defaults and simultaneously decrease loss severities. Further, during 2016 and the nine months ended September 30, 2017, 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 generally 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 September 30, 2017, $14.8 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 19 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 September 30, 2017, we have access to various sources of liquidity which we estimate to be in excess of $1.2 billion. This amount includes (i) $608.2 million of cash and cash equivalents; (ii) $186.0 million in estimated financing available from unpledged Agency MBS and from other Agency MBS collateral that is currently pledged in excess of contractual requirements; and (iii) $363.4 million in estimated financing available from unpledged Non-Agency MBS. Our sources of liquidity do not include restricted cash. We believe that we are positioned to continue to take advantage of investment opportunities within the residential mortgage marketplace.

Repurchase agreement funding for our residential mortgage investments continued to be available to us from multiple counterparties during the third quarter of 2017. Typically, repurchase agreement funding involving credit-sensitive investments is available at terms requiring higher collateralization and higher interest rates, than for repurchase agreement funding involving Agency MBS. At September 30, 2017, our debt consisted of borrowings under repurchase agreements with 31 counterparties, securitized debt, Senior Notes outstanding, obligation to return securities obtained as collateral and payable for unsettled purchases, resulting in a debt-to-equity multiple of 2.4 times. (See table on page 75 under Results of Operations that presents our quarterly leverage multiples since September 30, 2016.)

Information About Our Assets

The tables below present certain information about our asset allocation at September 30, 2017:

ASSET ALLOCATION

	Agency MBS	Legacy Non-Agency MBS	RPL/NPL MBS *(1)*	Credit Risk Transfer Securities	MSR Related Assets	Residential Whole Loans, at Carrying Value *(2)*	Residential Whole Loans, at Fair Value	Other, net *(3)*	Total
(Dollars in Millions)									
Fair Value/Carrying Value	$ 3,019	$ 2,717	$ 1,195	$ 654	$ 412	$ 639	$ 1,103	$ 748	$ 10,487
Less Payable for Unsettled Purchases	—	(4)	—	—	—	—	(120)	—	(124)
Less Repurchase Agreements	(2,671)	(1,837)	(798)	(413)	(269)	(273)	(610)	—	(6,871)
Less Senior Notes	—	—	—	—	—	—	—	(97)	(97)
Less Securitized Debt	—	—	—	—	—	(111)	(26)	—	(137)
Net Equity Allocated	$ 348	$ 876	$ 397	$ 241	$ 143	$ 255	$ 347	$ 651	$ 3,258
Debt/Net Equity Ratio *(4)*	7.7x	2.1x	2.0x	1.7x	1.9x	1.5x	2.2x		2.4x

(1) RPL/NPL MBS are backed primarily by securitized re-performing and non-performing loans. The securities are structured such that the coupon increases up to 300 basis points at 36 months from issuance or sooner. 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 September 30, 2017, the fair value of such loans is estimated to be approximately $693.8 million.

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

(4) Represents the sum of borrowings under repurchase agreements, securitized debt 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 $507.3 million and Senior Notes.

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Agency MBS

The following table presents certain information regarding the composition of our Agency MBS portfolio as of September 30, 2017 and December 31, 2016:

September 30, 2017

(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)*	$ 1,000,583	104.3%	102.5%	$ 1,025,730	64	2.95%	11.1%
HARP *(4)*	95,571	104.7	102.6	98,095	63	2.95	14.7
Other (Post June 2009) *(5)*	87,314	104.0	105.2	91,890	84	4.14	11.9
Other (Pre June 2009) *(6)*	315	104.9	105.2	332	100	4.50	28.8
Total 15-Year Fixed Rate	$ 1,183,783	104.3%	102.7%	$ 1,216,047	65	3.04%	11.4%
Hybrid:							
Other (Post June 2009) *(5)*	$ 1,092,102	104.4%	104.2%	$ 1,137,631	76	3.16%	20.1%
Other (Pre June 2009) *(6)*	553,753	101.7	105.0	581,390	129	3.35	18.8
Total Hybrid	$ 1,645,855	103.5%	104.4%	$ 1,719,021	94	3.23%	19.7%
CMO/Other	$ 80,764	102.5%	103.0%	$ 83,172	196	3.04%	16.1%
Total Portfolio	$ 2,910,402	103.8%	103.7%	$ 3,018,240	85	3.15%	16.2%

December 31, 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)*	$ 1,170,788	104.3%	103.0%	$ 1,206,174	55	2.97%	11.2%
HARP *(4)*	116,790	104.7	103.0	120,290	54	2.96	12.1
Other (Post June 2009) *(5)*	106,343	104.0	105.7	112,400	75	4.14	14.3
Other (Pre June 2009) *(6)*	564	104.9	105.9	597	91	4.50	28.8
Total 15-Year Fixed Rate	$ 1,394,485	104.3%	103.2%	$ 1,439,461	57	3.06%	11.5%
Hybrid:							
Other (Post June 2009) *(5)*	$ 1,370,019	104.4%	104.8%	$ 1,436,184	67	2.99%	19.9%
Other (Pre June 2009) *(6)*	720,419	101.7	105.6	761,052	120	3.03	17.0
Total Hybrid	$ 2,090,438	103.5%	105.1%	$ 2,197,236	86	3.01%	18.9%
CMO/Other	$ 96,379	102.5%	102.9%	$ 99,196	187	2.81%	14.7%
Total Portfolio	$ 3,581,302	103.8%	104.3%	$ 3,735,893	77	3.02%	15.9%

(1) Does not include principal payments receivable of $1.1 million and $2.6 million at September 30, 2017 and December 31, 2016, respectively.
(2) Weighted average is based on MBS current face at September 30, 2017 and December 31, 2016, 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.

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The following table presents certain information regarding our 15-year fixed-rate Agency MBS as of September 30, 2017 and December 31, 2016:

September 30, 2017

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%	$	608,076	104.0%	101.3%	$	616,008	57	3.04%	100%	10.6%
3.0%		243,604	105.9	103.0		250,902	63	3.49	100	11.5
3.5%		5,944	103.5	104.5		6,211	83	4.18	100	6.2
4.0%		281,506	103.5	105.0		295,672	82	4.40	80	13.3
4.5%		44,653	105.2	105.8		47,254	86	4.88	34	11.8
Total 15-Year Fixed Rate	$	1,183,783	104.3%	102.7%	$	1,216,047	65	3.53%	93%	11.4%

December 31, 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%	$	700,388	104.0%	101.6%	$	711,696	48	3.04%	100%	9.9%
3.0%		288,648	105.9	103.3		298,311	54	3.49	100	11.3
3.5%		7,244	103.5	104.6		7,576	74	4.18	100	15.7
4.0%		343,105	103.5	105.9		363,258	73	4.40	80	14.2
4.5%		55,100	105.2	106.4		58,620	77	4.88	34	14.5
Total 15-Year Fixed Rate	$	1,394,485	104.3%	103.2%	$	1,439,461	57	3.54%	92%	11.5%

(1) Does not include principal payments receivable of $1.1 million and $2.6 million at September 30, 2017 and December 31, 2016, respectively.
(2) Weighted average is based on MBS current face at September 30, 2017 and December 31, 2016, 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.

The following table presents certain information regarding our Hybrid Agency MBS as of September 30, 2017 and December 31, 2016:

September 30, 2017

(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	$ 425,236	104.3%	104.7%	$ 445,304	3.44%	86	6	27%	23.3%
Agency 7/1	486,038	104.4	103.8	504,745	2.95	71	14	25	20.2
Agency 10/1	180,828	104.6	103.7	187,582	3.08	65	54	64	12.0
Total Hybrids Post June 2009	$ 1,092,102	104.4%	104.2%	$ 1,137,631	3.16%	76	17	32%	20.1%
Hybrid Pre June 2009:									
Coupon < 4.5% *(5)*	$ 545,851	101.7%	105.0%	$ 573,132	3.32%	130	6	24%	18.9%
Coupon >= 4.5% *(6)*	7,902	101.8	104.5	8,258	5.50	118	6	44	12.0
Total Hybrids Pre June 2009	$ 553,753	101.7%	105.0%	$ 581,390	3.35%	129	6	24%	18.8%
Total Hybrids	$ 1,645,855	103.5%	104.4%	$ 1,719,021	3.23%	94	14	29%	19.7%

December 31, 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	$ 551,736	104.3%	105.7%	$ 583,318	2.93%	76	6	25%	17.7%
Agency 7/1	618,414	104.5	104.3	645,200	3.00	62	21	24	22.8
Agency 10/1	199,869	104.7	103.9	207,666	3.13	58	61	64	17.1
Total Hybrids Post June 2009	$ 1,370,019	104.4%	104.8%	$ 1,436,184	2.99%	67	21	30%	19.9%
Hybrid Pre June 2009:									
Coupon < 4.5% *(5)*	$ 691,572	101.7%	105.6%	$ 730,626	2.92%	121	6	33%	16.9%
Coupon >= 4.5% *(6)*	28,847	101.4	105.5	30,426	5.71	112	7	69	18.1
Total Hybrids Pre June 2009	$ 720,419	101.7%	105.6%	$ 761,052	3.03%	120	6	34%	17.0%
Total Hybrids	$ 2,090,438	103.5%	105.1%	$ 2,197,236	3.01%	86	15	32%	18.9%

(1) Does not include principal payments receivable of $1.1 million and $2.6 million at September 30, 2017 and December 31, 2016, respectively.
(2) Weighted average is based on MBS current face at September 30, 2017 and December 31, 2016, 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 September 30, 2017 and December 31, 2016, 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%.

Non-Agency MBS

The following table presents information with respect to our Non-Agency MBS at September 30, 2017 and December 31, 2016:

(In Thousands)	September 30, 2017		December 31, 2016	
Non-Agency MBS				
Face/Par	$	4,101,102	$	6,065,618
Fair Value		3,911,660		5,684,836
Amortized Cost		3,263,226		5,093,243
Purchase Discount Designated as Credit Reserve and OTTI		(593,134) *(1)*		(694,241) *(2)*
Purchase Discount Designated as Accretable		(244,793)		(278,191)
Purchase Premiums		51		57

(1) Includes discount designated as Credit Reserve of $578.3 million and OTTI of $14.8 million.
(2) Includes discount designated as Credit Reserve of $675.6 million and OTTI of $18.6 million.

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 nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016	
(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	$ (626,498)	$ (257,967)	$ (724,198)	$ (325,548)
Accretion of discount	—	18,621	—	20,236
Realized credit losses	13,982	—	15,629	—
Purchases	—	(1,929)	(15,124)	9,830
Sales	4,620	11,244	2,398	6,523
Net impairment losses recognized in earnings	—	—	(485)	—
Transfers/release of credit reserve	14,762	(14,762)	6,822	(6,822)
Balance at end of period	$ (593,134)	$ (244,793)	$ (714,958)	$ (295,781)

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
(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	$ (694,241)	$ (278,191)	$ (787,541)	$ (312,182)
Impact of RMBS Issuer Settlement *(2)*	—	—	—	(52,881)
Accretion of discount	—	60,461	—	61,153
Realized credit losses	39,445	—	49,408	—
Purchases	(484)	(3,449)	(25,999)	13,210
Sales	29,398	10,166	16,281	28,297
Net impairment losses recognized in earnings	(1,032)	—	(485)	—
Transfers/release of credit reserve	33,780	(33,780)	33,378	(33,378)
Balance at end of period	$ (593,134)	$ (244,793)	$ (714,958)	$ (295,781)

(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 nine months ended September 30, 2016 in connection with the settlement of litigation related to certain Countrywide sponsored residential mortgage backed securitization trusts.

The following table presents information with respect to the yield components of our Non-Agency MBS for the three months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017		Three Months Ended September 30, 2016	
	Legacy Non-Agency MBS	RPL/NPL MBS	Legacy Non-Agency MBS	RPL/NPL MBS
Non-Agency MBS				
Coupon Yield *(1)*	5.63%	4.24%	5.28%	3.83%
Effective Yield Adjustment *(2)*	3.30	0.19	2.81	0.03
Net Yield	8.93%	4.43%	8.09%	3.86%

(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 September 30, 2017 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	Weighted Average Yield
Agency MBS:											
Fannie Mae	$ —	—%	$ 173	2.05%	$ 563,126	2.00%	$ 1,834,686	1.99%	$ 2,397,985	$ 2,404,220	1.99%
Freddie Mac	—	—	—	—	143,086	2.29	474,364	1.82	617,450	608,349	1.93
Ginnie Mae	—	—	—	—	100	2.32	6,550	2.13	6,650	6,735	2.13
Total Agency MBS	$ —	—%	$ 173	2.05%	$ 706,312	2.06%	$ 2,315,600	1.95%	$ 3,022,085	$ 3,019,304	1.98%
Non-Agency MBS	$ —	—	$ 306,082	3.98%	$ 53	1.16%	$ 2,957,091	7.74%	$ 3,263,226	$ 3,911,660	7.39%
Total MBS	$ —	—%	$ 306,255	3.98%	$ 706,365	2.06%	$ 5,272,691	5.20%	$ 6,285,311	$ 6,930,964	4.79%

CRT Securities

At September 30, 2017, our CRT securities had an amortized cost of $612.7 million, a fair value of $653.6 million, a weighted average yield of 5.67% and a weighted average time to maturity of 9.4 years. At December 31, 2016, our CRT securities had an amortized cost of $382.7 million, a fair value of $404.9 million, a weighted average yield of 5.86% and weighted average time to maturity of 9.0 years.

Residential Whole Loans

The following table presents the contractual maturities of our residential whole loans held by consolidated trusts at September 30, 2017 and does not reflect estimates of prepayments or scheduled amortization. For residential whole loans held at carrying value, amounts presented are estimated based on the underlying loan contractual amounts.

(In Thousands)	Residential Whole Loans, at Carrying Value	Residential Whole Loans, at Fair Value *(1)*
Amount due:		
Within one year	$ 1,471	$ 7,981
After one year:		
Over one to five years	4,002	12,577
Over five years	633,743	962,592
Total due after one year	$ 637,745	$ 975,169
Total residential whole loans	$ 639,216	$ 983,150

(1) Excludes approximately $120.4 million of residential whole loans held at fair value for which the closing of the purchase transaction had not occurred as of September 30, 2017.

The following table presents at September 30, 2017, the dollar amount of our residential whole loans held 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)(2)*
Interest rates:	
Fixed	$ 561,122
Adjustable	414,047
Total	$ 975,169

(1) Includes loans on which borrowers have defaulted and are not making payments of principal and/or interest as of September 30, 2017.
(2) Excludes approximately $120.4 million of residential whole loans held at fair value for which the closing of the purchase transaction had not occurred as of September 30, 2017.

Information is not presented for residential whole loans held 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 held at fair value at September 30, 2017 and December 31, 2016:

	Residential Whole Loans, at Fair Value	
(Dollars in Thousands)	**September 30, 2017**	**December 31, 2016**
Loans 90 days or more past due *(1)*:		
Number of Loans	3,276	2,560
Aggregate Amount Outstanding	$ 690,924	$ 570,025

(1) Excludes loans which are 90 or more days past due at September 30, 2017 from the $120.4 million of residential whole loans held at fair value for which the closing of the purchase transaction had not occurred as of September 30, 2017.

Income on residential whole loans held 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 held 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% - 5% of the amount borrowed (U.S. Treasury and Agency MBS collateral) to up to 35% (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.

The table below summarizes our exposure to our counterparties at September 30, 2017, by country:

Country	Number of Counterparties	Repurchase Agreement Financing		Exposure *(1)*	Exposure as a Percentage of MFA Total Assets
(Dollars in Thousands)					
European Countries: *(2)*					
Switzerland *(3)*	3	$ 1,216,558		$ 451,176	4.06%
France	2	633,669		164,412	1.48
United Kingdom	2	389,142		118,615	1.07
Holland	1	128,838		10,898	0.10
Total European	8	2,368,207		745,101	6.71%
Other Countries:					
United States	14	$ 3,393,888		$ 822,352	7.41%
Canada *(4)*	3	546,052		138,114	1.24
Japan *(5)*	3	458,915		39,246	0.35
China *(5)*	1	412,410		13,115	0.12
South Korea	1	192,229		12,931	0.12
Total Other	22	5,003,494		1,025,758	9.24%
Total	30	$ 7,371,701	*(6)*	$ 1,770,859	15.95%

(1) Represents for each counterparty the amount of cash and/or securities pledged as collateral less the aggregate of repurchase agreement financing 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 Canada-based counterparties as well as U.S.-domiciled subsidiaries of Canadian parent entities. In the case of one counterparty, also includes exposure of $411.4 million to Barbados-based affiliate of the Canadian parent entity.

(5) Exposure is to U.S.-domiciled subsidiary of the Japanese or Chinese parent entity, as the case may be.

(6) Includes $500.0 million of repurchase agreements entered into in connection with contemporaneous repurchase and reverse repurchase agreements with a single counterparty.

At September 30, 2017, 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 (commonly known as "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 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 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 income and items expected to impact future taxable income

We estimate that for the nine months ended September 30, 2017, our taxable income was approximately $250.9 million. Based on dividends paid or declared during the nine months ended September 30, 2017, we have undistributed taxable income of approximately $60.7 million, or $0.15 per share. We have until the filing of our 2017 tax return (due not later than October 15, 2018) to declare the distribution of any 2017 REIT taxable income not previously distributed.

During the first quarter of 2017 we unwound our remaining MBS resecuritization transaction. We currently estimate that the unwind will generate taxable income (but not GAAP income) of an amount in excess of $0.12 per share. During the second quarter of 2017 we entered into our first securitization of residential whole loans. As part of this transaction, loans deemed to be sold for tax purposes are estimated to generate 2017 taxable income in excess of $0.01 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 MBS resecuritization transactions were deemed to be sold; and (ii) the tax basis of underlying MBS considered to be re-acquired in connection with the unwind of such transactions becomes the fair market value of such securities at the time of the unwind. For GAAP reporting purposes the underlying MBS that were included in these MBS resecuritization transactions were not considered to be sold. Similarly, for tax purposes the residential whole loans contributed to the VIEs used to facilitate our second quarter 2017 loan securitization transaction were deemed to be sold for tax purposes, but not for GAAP reporting purposes. In addition, for our Non-Agency MBS and residential whole loan tax portfolios, 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 estimating 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 for Non-Agency MBS in periods after the realized losses are reported. In addition, for MBS resecuritization transactions that were treated as a sale of the underlying MBS for tax purposes, taxable gain or loss, if any, resulting from the unwind of such transactions is not recognized in GAAP net income.

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

For tax purposes, depending on the transaction structure, a securitization and/or resecuritization transaction may be treated either as a sale or a financing of the underlying collateral. Income recognized from securitization and resecuritization transactions will differ for tax and GAAP purposes. For tax purposes, we own and may in the future acquire interests in securitization and/or 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 securitization and/or resecuritization transactions that were treated as a sale of the underlying collateral 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 since securitization and resecuritization transactions are typically accounted for as financing transactions for GAAP purposes. The tax basis of underlying residential whole loans or MBS re-acquired in connection with the unwind of such transactions becomes the fair market value of such assets at the time of the unwind.

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, restrictions on compensation for mortgage loan originators, and various other requirements related to mortgage origination. In addition, the Dodd-Frank 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.

The Dodd-Frank Act requires that numerous regulations be issued, many of which (including those mentioned above regarding servicing, underwriting and mortgage loan 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 or regulations 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.

The FHFA and both houses of Congress have discussed and considered separate measures intended to restructure the U.S. housing finance system and the operations of Fannie Mae and Freddie Mac. 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' 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 FHFA 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 2017. However, we cannot be certain if any housing and/or mortgage-related legislation will emerge from committee, or be approved by Congress, and if so, what the effect will be on our business.

Results of Operations

Quarter Ended September 30, 2017 Compared to the Quarter Ended September 30, 2016

General

For the third quarter of 2017, we had net income available to our common stock and participating securities of $60.1 million, or $0.15 per basic and diluted common share, compared to net income available to common stock and participating securities of $79.3 million, or $0.21 per basic and diluted common share, for the third quarter of 2016. The decrease in net income available to common stock and participating securities, and the decrease of this item on a per share basis primarily reflects a decrease in our net interest income, primarily on our Agency and Non-Agency MBS portfolios and lower other income, driven primarily by unrealized losses on CRT securities accounted for at fair value, partially offset by gains on liquidation of certain residential whole loans accounted for at carrying value. In addition, operating and other expenses were higher primarily due to non-recurring expenses in relation to our contractual obligation to accelerate the vesting of certain share based awards and to make a death benefit payment to the estate of our former Chief Executive Officer.

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 third quarter of 2017, our net interest spread and margin were 2.02% and 2.54%, respectively, compared to a net interest spread and margin of 2.13% and 2.46%, respectively, for the third quarter of 2016. Our net interest income decreased by $8.7 million, or 13.5%, to $55.9 million from $64.5 million for the third quarter of 2016. Current quarter net interest income from Agency MBS and Legacy Non-Agency MBS declined compared to the third quarter of 2016 by approximately $11.0 million, primarily due to lower average amounts invested in these securities and higher funding costs, partially offset by higher yields earned on these investments. In addition, net interest income on RPL/NPL MBS was $6.8 million lower compared to the third quarter of 2016 primarily due to lower average amounts invested in these securities and higher funding costs partially offset by higher yields earned on these securities. These decreases were partially offset by higher net interest income on MSR related assets, CRT securities and residential whole loans at carrying value of approximately $9.2 million compared to the third quarter of 2016, primarily due to higher average balances invested in these assets. In addition, net interest income also includes $4.6 million of interest expense associated with residential whole loans at fair value, reflecting a $1.3 million increase in borrowing costs related to these investments compared to the third quarter of 2016. Coupon interest income received from residential whole loans at fair value is presented as a component of the total income earned on these investments and therefore is included in Other Income, net rather than net interest income.

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 September 30, 2017 and 2016. 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 September 30,					
	2017			2016		
(Dollars in Thousands)	**Average Balance**	**Interest**	**Average Yield/Cost**	**Average Balance**	**Interest**	**Average Yield/Cost**
Assets:						
Interest-earning assets:						
Agency MBS *(1)*	$ 3,154,112	$ 15,533	1.97%	$ 4,143,523	$ 18,957	1.83%
Legacy Non-Agency MBS *(1)*	2,182,148	48,693	8.93	2,858,731	57,818	8.09
RPL/NPL MBS *(1)*	1,315,737	14,559	4.43	2,673,527	25,820	3.86
Total MBS	6,651,997	78,785	4.74	9,675,781	102,595	4.24
CRT securities *(1)*	604,322	8,676	5.74	294,704	3,983	5.41
MSR related assets *(1)*	454,354	7,194	6.33	—	—	—
Residential whole loans, at carrying value *(2)*	609,538	9,026	5.92	388,601	5,917	6.09
Cash and cash equivalents *(3)*	657,331	1,452	0.88	307,147	221	0.29
Total interest-earning assets	8,977,542	105,133	4.68	10,666,233	112,716	4.23
Total non-interest-earning assets *(2)*	2,487,953			2,146,677		
Total assets	$ 11,465,495			$ 12,812,910		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Total repurchase agreements and other advances *(4)*	$ 7,022,913	$ 46,303	2.58%	$ 8,868,173	$ 46,158	2.04%
Securitized debt	139,276	962	2.70	—	—	—
Senior Notes	96,756	2,010	8.31	96,718	2,009	8.31
Total interest-bearing liabilities	7,258,945	49,275	2.66	8,964,891	48,167	2.10
Total non-interest-bearing liabilities	927,877			842,227		
Total liabilities	8,186,822			9,807,118		
Stockholders' equity	3,278,673			3,005,792		
Total liabilities and stockholders' equity	$ 11,465,495			$ 12,812,910		
Net interest income/net interest rate spread *(5)*		$ 55,858	2.02%		$ 64,549	2.13%
Net interest-earning assets/net interest margin *(6)*	$ 1,718,597		2.54%	$ 1,701,342		2.46%
Ratio of interest-earning assets to interest-bearing liabilities	1.24x			1.19x		

(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.

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 September 30, 2017 Compared to Three Months Ended September 30, 2016		
	Increase/(Decrease) due to		Total Net Change in Interest Income/Expense
(In Thousands)	**Volume**	**Rate**	
Interest-earning assets:			
Agency MBS	(4,790)	1,366	(3,424)
Legacy Non-Agency MBS	(14,688)	5,563	(9,125)
RPL/NPL MBS	(14,616)	3,355	(11,261)
CRT securities	4,430	263	4,693
MSR related assets	7,194	—	7,194
Residential whole loans, at carrying value *(1)*	3,276	(167)	3,109
Cash and cash equivalents	437	794	1,231
Total net change in income from interest-earning assets	$ (18,757)	$ 11,174	$ (7,583)
Interest-bearing liabilities:			
Agency repurchase agreements and FHLB advances	(3,498)	3,767	269
Legacy Non-Agency repurchase agreements	(3,396)	1,541	(1,855)
RPL/NPL MBS repurchase agreements	(7,199)	2,760	(4,439)
CRT securities repurchase agreements	1,242	316	1,558
MSR related assets repurchase agreements	2,408	—	2,408
Residential whole loan at carrying value repurchase agreements	605	457	1,062
Residential whole loan at fair value repurchase agreements	690	452	1,142
Securitized debt	962	—	962
Senior Notes	1	—	1
Total net change in expense of interest-bearing liabilities	$ (8,185)	$ 9,293	$ 1,108
Net change in net interest income	$ (10,572)	$ 1,881	$ (8,691)

(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:

Quarter Ended	Total Interest-Earning Assets and Interest-Bearing Liabilities	
	Net Interest Spread *(1)*	Net Interest Margin *(2)*
September 30, 2017	2.02%	2.54%
June 30, 2017	2.10	2.58
March 31, 2017	2.27	2.63
December 31, 2016	2.12	2.46
September 30, 2016	2.13	2.46

(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.

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

Quarter Ended	Agency MBS			Legacy Non-Agency MBS			RPL/NPL MBS			Total MBS		
	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)*
September 30, 2017	1.97%	1.75%	0.22%	8.93%	3.26%	5.67%	4.43%	2.69%	1.74%	4.74%	2.41%	2.33%
June 30, 2017	1.96	1.57	0.39	8.85	3.28	5.57	4.18	2.46	1.72	4.68	2.29	2.39
March 31, 2017	1.98	1.49	0.49	8.90	3.05	5.85	3.87	2.27	1.60	4.58	2.15	2.43
December 31, 2016	1.92	1.41	0.51	8.24	3.01	5.23	3.86	2.14	1.72	4.35	2.07	2.28
September 30, 2016	1.83	1.28	0.55	8.09	2.98	5.11	3.86	2.05	1.81	4.24	1.96	2.28

(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 44, 49, 60, 65 and 62 basis points and Legacy Non-Agency cost of funding includes 45, 58, 58, 69, and 74 basis points associated with Swaps to hedge interest rate sensitivity on these assets for the quarters ended September 30, 2017, June 30, 2017, March 31, 2017, December 31, 2016 and September 30, 2016, 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 third quarter of 2017 decreased by $3.4 million, or 18.1% to $15.5 million from $19.0 million for the third quarter of 2016. This decrease primarily reflects a $989.4 million decrease in the average amortized cost of our Agency MBS portfolio to $3.2 billion for the third quarter of 2017 from $4.1 billion for the third quarter of 2016 partially offset by an increase in the net yield on our Agency MBS to 1.97% for the third quarter of 2017 from 1.83% for the third quarter of 2016. At the end of the third quarter of 2017, the average coupon on mortgages underlying our Agency MBS was higher compared to the end of the third quarter of 2016. In addition, during the third quarter of 2017, our Agency MBS portfolio experienced a 16.2% CPR and we recognized $7.9 million of net premium amortization compared to a CPR of 16.7% and $10.3 million of net premium amortization for the third quarter of 2016. At September 30, 2017, we had net purchase premiums on our Agency MBS of $110.6 million, or 3.8% of current par value, compared to net purchase premiums of $135.1 million, or 3.8% of par value at December 31, 2016.

Interest income on our Non-Agency MBS decreased $20.4 million, or 24.4%, for the third quarter of 2017 to $63.3 million compared to $83.6 million for the third quarter of 2016. This decrease is primarily due to the decrease in the average amortized cost of our Non-Agency MBS portfolio of $2.0 billion or 36.8%, to $3.5 billion from $5.5 billion for the third quarter of 2016. This decrease more than offset the impact of the higher yields generated on our Legacy Non-Agency MBS portfolio, which were 8.93% for the third quarter of 2017 compared to 8.09% for the third quarter of 2016. The increase in the net yield on our Legacy Non-Agency MBS portfolio reflects the impact of the cash proceeds received during 2016 in connection with the settlement of litigation related to certain Countrywide and Citigroup sponsored residential mortgage backed securitization trusts and the improved performance of loans underlying the Legacy Non-Agency MBS portfolio, which has resulted in credit reserve releases. Our RPL/NPL MBS portfolio yielded 4.43% for the third quarter of 2017 compared to 3.86% for the third quarter of 2016. The increase in the net yield reflects an increase in the average coupon yield to 4.24% for the third quarter of 2017 from 3.83% for the third quarter of 2016 and higher accretion income recognized in the current quarter due to the impact of redemptions of certain securities that had been previously purchased at a discount.

During the third quarter of 2017, we recognized net purchase discount accretion of $18.6 million on our Non-Agency MBS, compared to $20.2 million for the third quarter of 2016. At September 30, 2017, we had net purchase discounts of $835.8 million, including Credit Reserve and previously recognized OTTI of $593.1 million, on our Legacy Non-Agency MBS, or 28.7% of par value. During the third quarter of 2017 we reallocated $14.8 million of purchase discount designated as Credit Reserve to accretable purchase discount.

The following table presents the coupon yield and net yields earned on our Agency MBS and Non-Agency MBS and weighted average CPRs 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)***
September 30, 2017	2.98%	1.97%	16.2%	5.63%	8.93%	18.7%	4.24%	4.43%	26.2%
June 30, 2017	2.94	1.96	16.3	5.52	8.85	18.2	4.03	4.18	36.2
March 31, 2017	2.90	1.98	15.1	5.50	8.90	16.8	3.84	3.87	27.1
December 31, 2016	2.86	1.92	15.9	5.40	8.24	17.3	3.82	3.86	25.8
September 30, 2016	2.83	1.83	16.7	5.28	8.09	15.9	3.83	3.86	32.2

(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 third quarter of 2017 increased by $1.1 million, or 2.3%, to $49.3 million from $48.2 million for the third quarter of 2016. This increase primarily reflects an increase in financing rates on our repurchase agreement financings, an increase in our average borrowings to finance residential whole loans, MSR related assets and CRT securities, which was partially offset by a decrease in our average repurchase agreement borrowings and other advances to finance Agency MBS and Non-Agency MBS. The effective interest rate paid on our borrowings increased to 2.66% for the quarter ended September 30, 2017 from 2.10% for the quarter ended September 30, 2016.

At September 30, 2017, we had repurchase agreement borrowings of $6.9 billion, of which $2.6 billion was hedged with Swaps. At September 30, 2017, our Swaps designated in hedging relationships had a weighted average fixed-pay rate of 2.04% and extended 30 months on average with a maximum remaining term of approximately 71 months.

Payments made and/or received on our Swaps are a component of our borrowing costs and accounted for interest expense of $5.3 million, or 29 basis points, for the third quarter of 2017, as compared to interest expense of $10.2 million, or 44 basis points, for the third quarter of 2016. The weighted average fixed-pay rate on our Swaps designated as hedges increased to 2.04% for the quarter ended September 30, 2017 from 1.82% for the quarter ended and September 30, 2016. The weighted average variable interest rate received on our Swaps increased to 1.23% for the quarter ended September 30, 2017 from 0.49% for the quarter ended September 30, 2016. During the quarter ended September 30, 2017, 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 2017 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 5(b), 6 and 15 to the accompanying consolidated financial statements, included under Item 1 of this Quarterly Report on Form 10-Q.)

OTTI

We did not recognize any OTTI charges through earnings during the third quarter of 2017. During the third quarter of 2016, we recognized OTTI charges through earnings against certain of our Non-Agency MBS of $485,000. 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 September 30, 2017, we had 386 Agency MBS with a gross unrealized loss of $32.9 million and 13 Non-Agency MBS with a gross unrealized loss of $390,000. Impairments on Agency MBS in an unrealized loss position at September 30, 2017 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 third quarter of 2017, Other Income, net decreased by $4.8 million, or 14.2%, to $29.1 million compared to $33.9 million for the third quarter of 2016. Other Income, net for the third quarter of 2017 primarily reflects a $18.7 million net gain recorded on residential whole loans held at fair value, $14.9 million of net gains realized on the sale of $44.5 million of Non-Agency MBS and U.S. Treasury securities primarily offset by $5.2 million of unrealized losses on CRT securities accounted for at fair value. Other Income, net for the third quarter of 2016 primarily reflects a $19.6 million net gain recorded on residential whole loans held at fair value, $7.7 million of unrealized gains on CRT securities accounted for at fair value and $7.1 million of gross gains realized on the sale of $13.2 million Non-Agency MBS.

Operating and Other Expense

For the third quarter of 2017, we had compensation and benefits and other general and administrative expenses of $15.0 million, or 1.83% of average equity, compared to $10.8 million, or 1.44% of average equity, for the third quarter of 2016. Compensation and benefits expense increased $3.8 million to $10.9 million for the third quarter of 2017, compared to $7.1 million for the third quarter of 2016, which primarily reflects non-recurring expenses recorded in relation to our contractual obligation to accelerate the vesting of certain share based awards and to make a death benefit payment to the estate of our former Chief Executive Officer. Our other general and administrative expenses increased by $372,000 to $4.1 million for the quarter ended September 30, 2017 compared to $3.7 million for the quarter ended September 30, 2016 primarily due to higher professional services related costs.

Operating and Other Expense for the third quarter of 2017 also includes $6.2 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 $2.0 million, primarily due to increases in non-recoverable advances on REO, increased loan servicing and modification fees and higher loan acquisition related expenses.

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)*
September 30, 2017	2.10%	7.78%	28.60%	1.33	2.4	$ 7.70
June 30, 2017	2.63	10.01	27.59	1.00	2.5	7.76
March 31, 2017	2.42	10.19	24.95	1.00	2.9	7.66
December 31, 2016	2.18	9.52	24.19	1.11	3.1	7.62
September 30, 2016	2.47	11.05	23.46	0.95	3.1	7.64

(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.

Nine Month Period Ended September 30, 2017 Compared to the Nine Month Period Ended September 30, 2016

General

For the nine months ended September 30, 2017, we had net income available to common stock and participating securities of $210.5 million, or $0.54 per basic and diluted common share, compared to net income available to common stock and participating securities of $228.8 million, or $0.61 per basic and diluted common share, for the nine months ended September 30, 2016. The decrease in net income available to common stock and participating securities, and the decrease of this item on a per share basis primarily reflects a decrease in our net interest income primarily on our Agency and Non-Agency MBS portfolios. This decrease was partially offset by higher other income, driven primarily by higher gains on sales of Legacy Non-Agency MBS, unrealized gains on CRT securities accounted for at fair value and gains on the liquidation of certain residential whole loans accounted for at carrying value. In addition, operating and other expenses where higher primarily due to non-recurring expenses in relation to our contractual obligation to accelerate the vesting of certain share based awards and to make a death benefit payment to the estate of our former Chief Executive Officer.

Net Interest Income

For the nine months ended September 30, 2017, our net interest spread and margin were 2.15% and 2.59%, respectively, compared to a net interest spread and margin of 2.16% and 2.49%, respectively, for the nine months ended September 30, 2016. Our net interest income decreased by $17.3 million, or 8.6%, to $183.9 million from $201.2 million for the nine months ended September 30, 2016. For the nine months ended September 30, 2017, net interest income from Agency MBS and Legacy Non-Agency MBS declined compared to the nine months ended September 30, 2016, by approximately $27.3 million, primarily due to lower average amounts invested in these securities and higher funding costs, partially offset by higher yields earned on Legacy Non-Agency MBS. In addition, net interest income on RPL/NPL MBS was approximately $14.8 million lower compared to the nine months ended September 30, 2016 primarily due to lower average amounts invested in these securities and higher funding costs partially offset by higher yields earned on these securities. These decreases were partially offset by higher net interest income on MSR related assets, CRT securities, and residential whole loans at carrying value of approximately $25.4 million compared to the nine months ended September 30, 2016, primarily due to higher average amounts invested in these assets and higher yields earned on CRT securities. In addition, net interest income for the nine months ended September 30, 2017 also includes $13.2 million of interest expense associated with residential whole loans at fair value, reflecting a $2.9 million increase in borrowing costs related to these investments compared to the nine months ended September 30, 2016. Coupon interest income received from residential whole loans at fair value is presented as a component of the total income earned on these investments and therefore is included in Other Income, net rather than net interest income.

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 nine months ended September 30, 2017 and 2016. 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.

	Nine Months Ended September 30,					
	2017			2016		
(Dollars in Thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets:						
Agency MBS *(1)*	$ 3,383,373	$ 50,014	1.97%	$ 4,389,672	$ 64,546	1.96%
Legacy Non-Agency MBS *(1)*	2,350,975	156,829	8.89	3,023,239	176,890	7.80
RPL/NPL MBS *(1)*	1,813,557	55,899	4.11	2,630,475	76,665	3.89
Total MBS	7,547,905	262,742	4.64	10,043,386	318,101	4.22
CRT securities *(1)*	520,585	22,898	5.86	243,776	9,897	5.41
MSR related assets *(1)*	376,811	17,833	6.31	—	—	—
Residential whole loans, at carrying value *(2)*	587,511	26,219	5.95	346,013	16,112	6.21
Cash and cash equivalents *(3)*	531,722	2,854	0.72	270,297	531	0.26
Total interest-earning assets	9,564,534	332,546	4.64	10,903,472	344,641	4.21
Total non-interest-earning assets *(2)*	2,207,939			2,007,033		
Total assets	$ 11,772,473			$ 12,910,505		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Total repurchase agreements and other advances *(4)*	7,704,662	141,444	2.42	9,069,065	137,127	1.99
Securitized debt *(5)*	57,073	1,173	2.71	8,949	333	4.89
Senior Notes	96,746	6,029	8.31	96,709	6,027	8.31
Total interest-bearing liabilities	7,858,481	148,646	2.49	9,174,723	143,487	2.05
Total non-interest-bearing liabilities	734,181			799,438		
Total liabilities	8,592,662			9,974,161		
Stockholders' equity	3,179,811			2,936,344		
Total liabilities and stockholders' equity	$ 11,772,473			$ 12,910,505		
Net interest income/ net interest rate spread *(6)*		$ 183,900	2.15%		$ 201,154	2.16%
Net interest-earning assets/ net interest margin *(7)*	$ 1,706,053		2.59%	$ 1,728,749		2.49%
Ratio of interest-earning assets to interest-bearing liabilities	1.22x			1.19x		

(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) Securitized debt for the nine months ended September 30, 2017 reflects securitized debt from our loan securitization transaction in June 2017. Securitized debt for the nine months ended September 30, 2016 reflects securitized debt from our MBS resecuritization transaction in February 2012.

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

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

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.

	Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016		
	Increase/(Decrease) due to		
(In Thousands)	Volume	Rate	Total Net Change in Interest Income/Expense
Interest-earning assets:			
Agency MBS	$ (14,842)	$ 310	$ (14,532)
Legacy Non-Agency MBS	(42,659)	22,598	(20,061)
RPL/NPL MBS	(24,970)	4,204	(20,766)
CRT securities	12,111	890	13,001
MSR related assets	17,833	—	17,833
Residential whole loans, at carrying value *(1)*	10,804	(697)	10,107
Cash and cash equivalents	833	1,490	2,323
Total net change in income from interest-earning assets	$ (40,890)	$ 28,795	$ (12,095)
Interest-bearing liabilities:			
Agency repurchase agreements and FHLB advances	$ (10,361)	$ 8,616	$ (1,745)
Legacy Non-Agency repurchase agreements	(10,192)	4,965	(5,227)
RPL/NPL MBS repurchase agreements	(11,447)	5,434	(6,013)
CRT securities repurchase agreements	3,452	579	4,031
MSR related assets repurchase agreements	5,773	—	5,773
Residential whole loan at carrying value repurchase agreements	3,998	747	4,745
Residential whole loan at fair value repurchase agreements	2,071	682	2,753
Securitized debt	1,049	(209)	840
Senior Notes	2	—	2
Total net change in expense of interest-bearing liabilities	$ (15,655)	$ 20,814	$ 5,159
Net change in net interest income	$ (25,235)	$ 7,981	$ (17,254)

(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 and Non-Agency MBS for the periods presented:

	Agency MBS			Legacy Non-Agency MBS			RPL/NPL MBS			Total MBS		
Nine 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)*
September 30, 2017	1.97%	1.60%	0.37%	8.89%	3.19%	5.70%	4.11%	2.43%	1.68%	4.64%	2.27%	2.37%
September 30, 2016	1.96%	1.26%	0.70%	7.80%	2.89%	4.91%	3.89%	2.03%	1.86%	4.22%	1.91%	2.31%

(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 51 and 63 basis points and Legacy Non-Agency cost of funding includes 54 and 69 basis points associated with Swaps to hedge interest rate sensitivity on these assets for the nine months ended September 30, 2017 and 2016, 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 nine months ended September 30, 2017 decreased by $14.5 million, or 22.5%, to $50.0 million from $64.5 million for the nine months ended September 30, 2016. This change primarily reflects a $1.0 billion decrease in the average amortized cost of our Agency MBS portfolio to $3.4 billion for the nine months ended September 30, 2017 from $4.4 billion for the nine months ended September 30, 2016 partially offset by a slight increase in the net yield on our Agency MBS to 1.97% for the nine months ended September 30, 2017 from 1.96% for the nine months ended September 30, 2016. At the end of the third quarter of 2017, the average coupon on mortgages underlying our Agency MBS was higher compared to the end of the third quarter of 2016. However, during the nine months ended September 30, 2017, our Agency MBS portfolio experienced a 14.4% CPR and we recognized $24.6 million of net premium amortization compared to a CPR of 12.7% and $27.7 million of net premium amortization for the nine months ended September 30, 2016. At September 30, 2017, we had net purchase premiums on our Agency MBS of $110.6 million, or 3.8% of current par value, compared to net purchase premiums of $135.1 million, or 3.8% of par value at December 31, 2016.

Interest income on our Non-Agency MBS (which includes Non-Agency MBS transferred to consolidated VIEs) decreased by $40.8 million, or 16.1%, for the nine months ended September 30, 2017 to $212.7 million compared to $253.6 million for the nine months ended September 30, 2016. This decrease is primarily due to the decrease in the average amortized cost of our Non-Agency MBS portfolio of $1.5 billion or 26.3%, to $4.2 billion from $5.7 billion for the nine months ended September 30, 2016. This decrease more than offset the impact of the higher yields generated on our Legacy Non-Agency MBS portfolio, which were 8.89% for the nine months ended September 30, 2017 compared to 7.80% for the nine months ended September 30, 2016. The increase in the net yield on our Legacy Non-Agency MBS portfolio reflects the impact of the cash proceeds received during 2016 in connection with the settlement of litigation related to certain Countrywide and Citigroup sponsored residential mortgage backed securitization trusts, the improved performance of loans underlying the Legacy Non-Agency MBS portfolio, which has resulted in credit reserve releases and the impact of redemptions during 2017 of certain securities that had been previously purchased at a discount. Our RPL/NPL MBS portfolio yielded 4.11% for the nine months ended September 30, 2017 compared to 3.89% for the nine months ended September 30, 2016. The increase in the net yield reflects an increase in the average coupon yield to 4.01% for the nine months ended September 30, 2017 from 3.79% for the nine months ended September 30, 2016 and higher accretion income recognized in the current nine month period due to the impact of redemptions of certain securities that had been previously purchased at a discount.

During the nine months ended September 30, 2017, we recognized net purchase discount accretion of $60.5 million on our Non-Agency MBS, compared to $61.2 million for the nine months ended September 30, 2016. At September 30, 2017, we had net purchase discounts of $835.8 million, including Credit Reserve and previously recognized OTTI of $593.1 million, on our Legacy Non-Agency MBS, or 28.7% of par value. During the nine months ended September 30, 2017 we reallocated $33.8 million of purchase discount designated as Credit Reserve to accretable purchase discount.

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

	Agency MBS			Legacy Non-Agency MBS			RPL/NPL MBS		
Nine Months Ended	Coupon Yield *(1)*	Net Yield *(2)*	9 Month Average CPR *(3)*	Coupon Yield *(1)*	Net Yield *(2)*	9 Month Average CPR *(3)*	Coupon Yield *(1)*	Net Yield *(2)*	9 Month Average Bond CPR *(4)*
September 30, 2017	2.94%	1.97%	14.4%	5.55%	8.89%	16.3%	4.01%	4.11%	32.2%
September 30, 2016	2.80	1.96	12.7	5.19	7.80	13.7	3.79	3.89	26.9

(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) 9 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 nine months ended September 30, 2017 increased by $5.2 million, or 3.6%, to $148.6 million, from $143.5 million for the nine months ended September 30, 2016. This increase primarily reflects an increase in financing rates on our repurchase agreement financings, an increase in our average borrowings to finance residential whole loans, MSR related assets and CRT securities, which was partially offset by a decrease in our average repurchase agreement borrowings and other advances to finance Agency MBS and Non-Agency MBS. The effective interest rate paid on our borrowings increased to 2.49% for the nine months ended September 30, 2017, from 2.05% for the nine months ended September 30, 2016.

Payments made and/or received on our Swaps are a component of our borrowing costs and accounted for interest expense of $19.6 million, or 33 basis points, for the nine months ended September 30, 2017, compared to interest expense of $31.3 million, or 45 basis points, for the nine months ended September 30, 2016. The weighted average fixed-pay rate on our Swaps designated as hedges increased to 1.96% for the nine months ended September 30, 2017 from 1.82% for the nine months ended September 30, 2016. The weighted average variable interest rate received on our Swaps designated as hedges increased to 1.00% for the nine months ended September 30, 2017 from 0.45% for the nine months ended September 30, 2016. During the nine months ended September 30, 2017, we did not enter into any new Swaps and had Swaps with an aggregate notional amount of $350.0 million and a weighted average fixed-pay rate of 0.58% amortize and/or expire.

We expect that our interest expense and funding costs for the remainder of 2017 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 5(b), 6 and 15 to the accompanying consolidated financial statements, included under Item 1 of this Quarterly Report on Form 10-Q.)

OTTI

During the nine months ended September 30, 2017 and 2016, we recognized OTTI charges through earnings against certain of our Non-Agency MBS of $1.0 million and $485,000, respectively. 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.

Other Income, net

For the nine months ended September 30, 2017, Other Income, net increased by $10.4 million, or 12.4%, to $94.0 million compared to $83.6 million for the nine months ended September 30, 2016. Other Income, net for the nine months ended September 30, 2017 primarily reflects a $48.7 million net gain recorded on residential whole loans held at fair value, $30.5 million of net gains realized on the sale of $222.1 million Non-Agency MBS and U.S. Treasury securities and $14.2 million of unrealized gains on CRT securities accounted for at fair value. Other Income, net for the nine months ended September 30, 2016 primarily reflects a net gain of $47.7 million on residential whole loans held at fair value, $26.1 million of gains realized on the sale of $65.1 million of Non-Agency MBS and $11.1 million of unrealized gains on CRT securities accounted for at fair value.

Operating and Other Expense

During the nine months ended September 30, 2017, we had compensation and benefits and other general and administrative expenses of $40.3 million, or 1.69% of average equity, compared to $34.0 million, or 1.54% of average equity, for the nine months ended September 30, 2016. Compensation and benefits expense increased $4.8 million to $26.3 million for the nine months ended September 30, 2017, compared to $21.5 million for the nine months ended September 30, 2016, which primarily reflects non-recurring expenses recorded in relation to our contractual obligation to accelerate the vesting of certain share based awards and to make a death benefit payment to the estate of our former Chief Executive Officer. Our other general and administrative expenses increased by $1.6 million to $14.1 million for the nine months ended September 30, 2017 compared to $12.5 million for the nine months ended September 30, 2016, primarily due to higher costs associated with the loan securitization transaction completed during the second quarter of 2017 and other structured financing transactions, higher costs related to stock-based compensation awards to Directors and higher professional services related costs.

Operating and Other Expense during the nine months ended September 30, 2017 also includes $14.8 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 $4.5 million, primarily due to increases in non-recoverable advances on REO, increased loan servicing and modification fees and higher loan acquisition related expenses, which were partially offset by a decrease in the provision for loan losses recognized for the nine month period.

Selected Financial Ratios

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

At or for the Nine 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)*
September 30, 2017	2.38%	9.30%	27.01%	1.11	2.4	$ 7.70
September 30, 2016	2.36	10.90	22.74	0.98	3.1	7.64

(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

Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* (or ASU 2017-12). The amendments in this ASU expand an entity's ability to hedge non-financial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The new guidance eliminates the requirement to separately measure and report hedge ineffectiveness and requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. ASU 2017-12 also simplifies certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. ASU 2017-12 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early application is permitted in any interim period or fiscal year before the effective date. An entity should apply the amendments of this ASU to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements of ASU 2017-12 should be applied prospectively. In addition, certain transition elections may be made by an entity upon adoption to allow for existing hedging relationships to transition to the newly allowable alternatives within this ASU. We are currently evaluating our adoption timing and the effect that ASU 2017-12 will have on our consolidated financial statements and related disclosures.

Compensation - Stock Compensation - Scope of Modification Accounting

In May 2017, the FASB issued ASU 2017-09, *Scope of Modification Accounting* (or ASU 2017-09). The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Pursuant to this ASU, an entity should account for the effects of a modification unless all of the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award date is modified. ASU 2017-09 is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period for which financial statements have not yet been issued or made available for issuance. The amendments of this ASU should be applied prospectively to an award modified on or after the adoption date. We do not expect the adoption of ASU 2017-09 to have a significant impact on our financial position or financial statement disclosures.

Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment* (or ASU 2017-04). The amendments in ASU 2017-04 eliminate the requirement to calculate the implied fair value of goodwill (Step 2 from today's goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on today's Step 1). Public business entities should adopt the amendments in ASU 2017-04 for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates on or after January 1, 2017. The amendments of this ASU should be applied in a prospective basis. We do not expect the adoption of ASU 2017-04 to have a significant impact on our financial position or financial statement disclosures.

Statement of Cash Flows - Restricted Cash

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash* (or ASU 2016-18). ASU 2016-18 clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows with the objective of reducing the existing diversity in practice. The amendments in ASU 2016-18 require restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early application is permitted, provided that all of the amendments are adopted in the same period. The amendments of this ASU should generally be applied using a retrospective transition method to each period presented. We do not expect the adoption of ASU 2016-18 to have a significant impact on our financial position or financial statement disclosures.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (or ASU 2016-15). The amendments in ASU 2016-15 provide guidance for eight specific cash flow classification issues, certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early application is permitted, provided that all of the amendments are adopted in the same period. The amendments of this ASU should generally be applied using a retrospective transition method to each period presented. We do not expect the adoption of ASU 2016-15 to have a significant impact on our financial position or financial statement disclosures.

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. Based on our initial evaluation of the amendments in this ASU, we anticipate being required to make changes to the way we account for credit impairment losses on our available-for-sale debt securities. Under our current accounting, credit impairment losses are generally required to be recorded as OTTI, which directly reduce the carrying amount of impaired securities, and are recorded in earnings and are not reversed if expected cash flows subsequently recover. Under the new guidance, credit impairments on such securities will be recorded as an allowance for credit losses that are also recorded in earnings, but the allowance can be reversed through earnings in a subsequent period if expected cash flows subsequently recover. In addition, we expect that the new guidance will also result in changes to the accounting and presentation of our residential whole loans held at carrying value. We currently anticipate that upon adoption, the guidance will result in an increase in the gross carrying amount of our residential whole loans at carrying value by the amount of the allowance for loan losses calculated under the new guidance. Thereafter, changes in the expected cash flows of such assets are expected to result in the recognition (or reversal) of an allowance for loan losses that will impact earnings. We will continue to monitor and evaluate the potential effects that ASU 2016-13 will have on our consolidated financial statements and related 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 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. The Company's significant lease contracts are discussed in Note 11(a) of the accompanying consolidated financial statements. While we continue to evaluate the potential impact that adoption of ASU 2016-02 will have on our financial reporting, given the relatively limited nature and extent of lease financing transactions that we have entered into, we do not expect that the adoption of ASU 2016-02 will have a significant impact on our financial position or financial statement 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 do not expect that adoption of ASU 2016-01 will have a significant impact on our financial position or financial statement 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 originally would have been 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. Based on our initial evaluation of this ASU, we do not expect its adoption will have a material impact on our financial position or financial statement disclosures as the majority of the Company's revenues are generated by financial instruments that are explicitly scoped out of this ASU. We will continue to monitor overall industry efforts to implement this ASU, including evaluating recent implementation questions and practice issues that may impact our business. As this monitoring effort continues, we will continue to assess potential impacts to our financial reporting procedures and controls (if any) as well as any impact on our financial position or financial statement disclosures.

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 investment 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 residential mortgage assets, 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 residential mortgage-related assets, 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 September 30, 2017, we had 13.0 million shares of common stock available for issuance pursuant to our DRSPP shelf registration statement. During the nine months ended September 30, 2017, we issued 1,516,307 shares of common stock through our DRSPP, raising net proceeds of approximately $12.2 million.

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 secured by harder to value assets, such as Non-Agency MBS and residential whole loans, 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.

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 September 30, 2017 and December 31, 2016:

At September 30, 2017	Weighted Average Haircut	Low	High
Repurchase agreement borrowings secured by:			
Agency MBS	4.62%	3.00%	5.00%
Legacy Non-Agency MBS	22.40	15.00	35.00
RPL/NPL MBS	21.58	20.00	27.50
U.S. Treasury securities	1.39	1.00	2.00
CRT securities	22.05	15.00	25.00
MSR related assets	33.76	30.00	50.00
Residential whole loans	28.35	20.00	35.00

At December 31, 2016	Weighted Average Haircut	Low	High
Repurchase agreement borrowings secured by:			
Agency MBS	4.67%	3.00%	6.00%
Legacy Non-Agency MBS	24.01	15.00	60.00
RPL/NPL MBS	20.98	15.00	30.00
U.S. Treasury securities	1.60	1.00	2.00
CRT securities	23.22	20.00	25.00
MSR related assets	41.40	35.00	50.00
Residential whole loans	25.03	20.00	35.00

During the first nine months of 2017, the weighted average haircut requirements for the respective underlying collateral types for our repurchase agreements have remained fairly consistent compared to the end of 2016. Weighted average haircuts have decreased on MSR related assets, Legacy Non-Agency MBS and CRT securities and have increased on Residential whole loans and RPL/NPL MBS.

Repurchase agreement funding for our residential mortgage investments has been available to us at generally attractive market terms from multiple counterparties. Typically, due to the risks inherent in credit sensitive residential mortgage investments, repurchase agreement funding involving such investments is available 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 credit sensitive investments.

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.)

At September 30, 2017, we had a total of $8.5 billion of MBS, U.S. Treasury securities, CRT securities, residential whole loans and MSR related assets and $15.4 million of restricted cash pledged against our repurchase agreements and Swaps. At September 30, 2017, we have access to various sources of liquidity which we estimate exceeds $1.2 billion. This includes (i) $608.2 million of cash and cash equivalents; (ii) $186.0 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) $363.4 million in estimated financing available from unpledged Non-Agency MBS. Our sources of liquidity do not include restricted cash.

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 *(1)*		
Quarter Ended *(2)*	**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)						
September 30, 2017	$ 7,022,913	$ 6,871,443	$ 7,023,702	$ 139,276	$ 137,327	$ 141,088
June 30, 2017	7,612,393	7,040,844	7,763,860	30,414	143,698	143,698
March 31, 2017	8,494,853	8,137,102	8,564,493	—	—	—
December 31, 2016	8,684,803	8,687,268	8,815,846	—	—	—
September 30, 2016	8,868,173	8,697,756	8,917,550	—	—	—

(1) Reflects securitized debt from our loan securitization transaction in June 2017
(2) 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 Nine Months Ended September 30, 2017

Our cash and cash equivalents increased by $348.1 million during the nine months ended September 30, 2017, reflecting: $1.9 billion provided by our investing activities, primarily from payments on our MBS; $119.0 million provided by our operating activities; and $1.7 billion used in our financing activities.

At September 30, 2017, our debt-to-equity multiple was 2.4 times compared to 3.1 times at December 31, 2016. At September 30, 2017, we had borrowings under repurchase agreements of $6.9 billion with 31 counterparties, of which $2.7 billion were secured by Agency MBS, $1.4 billion were secured by Legacy Non-Agency MBS, $798.5 million were secured by RPL/NPL MBS, $474.7 million were secured by U.S. Treasuries, $413.2 million were secured by CRT securities, $268.8 million were secured by MSR related assets and $883.4 million were secured by residential whole loans. We continue to have available capacity under our repurchase agreement credit lines. In addition, at September 30, 2017, we had securitized debt of $137.3 million in connection with our loan securitization transaction in June 2017. At December 31, 2016, we had borrowings under repurchase agreements of $8.5 billion with 31 counterparties, of which $3.1 billion were secured by Agency MBS, $1.7 billion were secured by Legacy Non-Agency MBS, $1.9 billion were secured by RPL/NPL MBS, $504.6 million were secured by U.S. Treasuries, $271.2 million were secured by CRT securities, $135.1 million were secured by MSR related assets and $832.1 million were secured by residential whole loans. In addition, at December 31, 2016, we had $215.0 million in outstanding FHLB advances, secured by Agency MBS, all of which were repaid in January 2017.

During the nine months ended September 30, 2017, $1.9 billion was provided through our investing activities. We received cash of $3.4 billion from prepayments and scheduled amortization on our MBS, CRT securities and MSR related assets, of which $675.6 million was attributable to Agency MBS, $2.6 billion was from Non-Agency MBS and $12.1 million was from CRT securities and $140.1 million was attributable to MSR related assets. We purchased $718.9 million of Non-Agency MBS, $238.8 million of CRT securities, $325.4 million of MSR related assets and $3.2 million of Agency MBS 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 nine months ended September 30, 2017 we sold certain of our Non-Agency MBS and U.S. Treasury securities for $222.1 million, realizing net gains of $30.5 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) 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.

For the Quarter Ended	Collateral Pledged to Meet Margin Calls: Fair Value of Securities Pledged	Collateral Pledged to Meet Margin Calls: Cash Pledged	Collateral Pledged to Meet Margin Calls: Aggregate Assets Pledged For Margin Calls	Cash and Securities Received for Reverse Margin Calls	Net Assets Received/(Pledged) for Margin Activity
(In Thousands)					
September 30, 2017	$ 83,513	$ —	$ 83,513	$ 53,499	$ (30,014)
June 30, 2017	106,432	500	106,932	75,996	(30,936)
March 31, 2017	150,264	1,500	151,764	246,168	94,404
December 31, 2016	337,694	8,000	345,694	357,163	11,469
September 30, 2016	343,351	28,700	372,051	343,139	(28,912)

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 September 30, 2017.

During the nine months ended September 30, 2017, we paid $229.0 million for cash dividends on our common stock and dividend equivalents and paid cash dividends of $11.3 million on our preferred stock. On September 14, 2017, we declared our third quarter 2017 dividend on our common stock of $0.20 per share; on October 31, 2017, we paid this dividend, which totaled approximately $79.6 million, including dividend equivalents of approximately $205,000.

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.

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. 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 residential mortgage assets 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 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 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.

The majority of our RPL/NPL MBS deal structures contain a contractual coupon step-up feature where the coupon increases up to 300 basis points if the bond is not redeemed by the issuer at 36 months or sooner. Therefore, we believe their fair value exhibits little sensitivity to changes in interest rates. We estimate the duration of these securities 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.

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At September 30, 2017, MFA's $5.7 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:

	Agency MBS			Legacy Non-Agency MBS *(1)*			Total *(1)*		
Time to Reset	**Fair Value *(2)***	**Average Months to Reset *(3)***	**3 Month Average CPR *(4)***	**Fair Value**	**Average Months to Reset *(3)***	**3 Month Average CPR *(4)***	**Fair Value *(2)***	**Average Months to Reset *(3)***	**3 Month Average CPR *(4)***
(Dollars in Thousands)									
< 2 years *(5)*	$ 1,597,666	8	20.4%	$ 1,845,110	5	19.0%	$ 3,442,776	6	19.6%
2-5 years	144,494	46	12.0	—	—	—	144,494	46	12.0
> 5 years	60,033	67	12.8	—	—	—	60,033	67	12.8
ARM-MBS Total	$ 1,802,193	13	19.5%	$ 1,845,110	5	19.0%	$ 3,647,303	9	19.2%
15-year fixed *(6)*	$ 1,216,047		11.4%	$ 3,250		12.9%	$ 1,219,297		11.4%
30-year fixed *(6)*	—		—	830,457		18.3	830,457		18.3
40-year fixed *(6)*	—		—	37,910		15.1	37,910		15.1
Fixed-Rate Total	$ 1,216,047		11.4%	$ 871,617		18.1%	$ 2,087,664		14.4%
MBS Total	$ 3,018,240		16.2%	$ 2,716,727		18.7%	$ 5,734,967		17.5%

(1) Excludes $1.2 billion of RPL/NPL MBS. Refer to table below for further information.
(2) Does not include principal payments receivable of $1.1 million.
(3) Months to reset is the number of months remaining before the coupon interest rate resets. At reset, the MBS coupon will adjust based upon the underlying benchmark interest rate index, margin and periodic 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 September 30, 2017:

	Fair Value	**Net Coupon**	**Months to Step-Up *(1)***	**3 Month Average Bond CPR *(2)***
(Dollars in Thousands)				
Re-Performing loans	$ 84,012	3.65%	32	43.0%
Non-Performing loans	1,110,920	4.25	21	22.6
Total RPL/NPL MBS	$ 1,194,932	4.21%	22	26.2%

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

At September 30, 2017, our CRT securities and MSR related assets had a fair value of $653.6 million and $411.8 million, respectively, and their coupons reset monthly based on one-month LIBOR.

Shock Table

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 September 30, 2017. 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 September 30, 2017.

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	$ 10,411,914	$ 27,911	$ 10,439,825	$ (85,728)	(3.08)%	(0.81)%
+ 50 Basis Point Increase	$ 10,485,268	$ (1,070)	$ 10,484,198	$ (41,355)	(1.80)%	(0.39)%
Actual at September 30, 2017	$ 10,555,603	$ (30,050)	$ 10,525,553	$ —	—	—
- 50 Basis Point Decrease	$ 10,622,921	$ (59,030)	$ 10,563,891	$ 38,338	(1.41)%	0.36 %
-100 Basis Point Decrease	$ 10,687,220	$ (88,011)	$ 10,599,209	$ 73,656	(1.68)%	0.70 %

(1) Such assets include MBS and CRT securities, residential whole loans and REO, MSR related assets, 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 September 30, 2017. 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 include anticipated interest rates, collateral requirements as a percent of repurchase agreement financings, and the amounts and terms of borrowing. At September 30, 2017, 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 September 30, 2017, 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 0.76 which is the weighted average of 1.68 for our Agency MBS, 1.28 for our Non-Agency investments, (2.30) for our Swaps, and 0.05 for Other assets and cash and cash equivalents. Estimated convexity (i.e., the approximate change in duration relative to the change in interest rates) of the portfolio was (0.11), which is the weighted average of (0.40) for our Agency MBS, zero for our Swaps, zero for our Non-Agency MBS, and zero for Other assets and 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.

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, CRT securities and MSR related assets. Our exposure to credit risk from our credit sensitive investments is discussed in more detail 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 September 30, 2017. 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 changes in home prices or changes in borrowers' credit scores or the current use of the mortgaged properties.

The information in the table below is presented as of September 30, 2017:

Year of Securitization *(2)*	Securities with Average Loan FICO of 715 or Higher *(1)* 2007	2006	2005 and Prior	Securities with Average Loan FICO Below 715 *(1)* 2007	2006	2005 and Prior	Total
(Dollars in Thousands)							
Number of securities	84	65	90	29	57	61	386
MBS current face *(3)*	$ 776,217	$ 505,156	$ 580,846	$ 171,088	$ 446,942	$ 428,426	$ 2,908,675
Total purchase discounts, net *(3)*	$ (229,043)	$ (143,950)	$ (107,878)	$ (56,606)	$ (169,151)	$ (129,206)	$ (835,834)
Purchase discount designated as Credit Reserve and OTTI *(3)(4)*	$ (145,118)	$ (74,508)	$ (57,820)	$ (46,116)	$ (165,468)	$ (104,104)	$ (593,134)
Purchase discount designated as Credit Reserve and OTTI as percentage of current face	18.7%	14.7%	10.0%	27.0%	37.0%	24.3%	20.4%
MBS amortized cost *(3)*	$ 547,174	$ 361,206	$ 472,968	$ 114,482	$ 277,791	$ 299,220	$ 2,072,841
MBS fair value *(3)*	$ 729,689	$ 472,395	$ 562,202	$ 157,543	$ 393,568	$ 401,330	$ 2,716,727
Weighted average fair value to current face	94.0%	93.5%	96.8%	92.1%	88.1%	93.7%	93.4%
Weighted average coupon *(5)*	3.97%	3.45%	3.69%	4.93%	4.97%	4.74%	4.15%
Weighted average loan age (months) *(5)(6)*	126	135	149	131	137	148	137
Weighted average current loan size *(5)(6)*	$ 503	$ 491	$ 300	$ 345	$ 249	$ 236	$ 373
Percentage amortizing *(7)*	99%	100%	100%	99%	99%	100%	100%
Weighted average FICO score at origination *(5)(8)*	729	729	726	705	702	703	719
Owner-occupied loans	90.7%	90.9%	86.5%	84.8%	86.3%	84.4%	88.0%
Rate-term refinancings	29.8%	21.8%	14.9%	22.3%	15.7%	14.4%	20.5%
Cash-out refinancings	35.2%	35.2%	27.7%	44.5%	44.4%	39.5%	36.3%
3 Month CPR *(6)*	23.0%	17.8%	20.2%	16.5%	16.7%	17.6%	19.4%
3 Month CRR *(6)(9)*	19.5%	15.1%	17.3%	13.9%	12.6%	14.5%	16.2%
3 Month CDR *(6)(9)*	4.5%	3.3%	3.5%	3.3%	5.5%	4.0%	4.1%
3 Month loss severity	61.5%	41.6%	45.8%	51.9%	55.8%	54.2%	53.4%
60+ days delinquent *(8)*	11.5%	11.4%	8.5%	15.1%	15.1%	12.8%	11.8%
Percentage of always current borrowers (Lifetime) *(10)*	32.6%	32.3%	39.8%	27.2%	23.4%	28.2%	31.6%
Percentage of always current borrowers (12M) *(11)*	76.4%	76.9%	79.3%	69.2%	68.2%	70.4%	74.5%
Weighted average credit enhancement *(8)(12)*	0.2%	0.2%	4.7%	0.0%	1.3%	2.8%	1.6%

(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 since 2012 in which the underlying collateral consists of RPL/NPL MBS. These Non-Agency MBS have a current face of $1.2 billion, amortized cost of $1.2 billion, fair value of $1.2 billion and purchase discounts of $2.0 million at September 30, 2017.
(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 September 30, 2017.
(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.

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 September 30, 2017:

Property Location	Percent of Unpaid Principal Balance
California	42.9%
Florida	7.8%
New York	6.5%
New Jersey	4.0%
Virginia	3.9%

RPL/NPL MBS

These securities are backed by re-performing and non-performing loans, were purchased primarily through new issue at prices at or around par and represent the senior tranches of the related securitizations. The majority of these securities 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.

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 investments in CRT securities by assessing the current performance of the loans in the associated reference pool.

MSR Related Assets

Term Notes

We have invested in certain term notes that are issued by SPVs that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. Payment of principal and interest on these term notes is considered by us to be largely dependent on the cash flows generated by the underlying MSRs as this impacts the cash flows available to the SPV that issued the term notes. Credit risk borne by the holders of the term notes is also mitigated by structural credit support in the form of over-collateralization. In addition, credit support is also provided by a corporate guarantee from the ultimate parent or sponsor of the SPV that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the underlying MSRs be insufficient.

Corporate Loan

We have entered into a loan agreement with an entity that originates loans and owns MSRs. We assess the credit risk associated with this loan by considering various factors, including the current status of the loan, changes in fair value of the MSRs that secure the loan and the recent financial performance of the borrower.

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 September 30, 2017:

Property Location	Percent of Interest-Bearing Unpaid Principal Balance *(1)*
California	20.7%
New York	15.0%
Florida	8.6%
New Jersey	7.1%
Maryland	5.0%

(1) Excludes approximately $120.4 million of residential whole loans for which the closing of the purchase transaction had not occurred as of September 30, 2017.

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 and Swaps. At September 30, 2017, we had access to various sources of liquidity which we estimate to be in excess of $1.2 billion, an amount which includes: (i) $608.2 million of cash and cash equivalents, (ii) $186.0 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) $363.4 million in estimated financing available from currently unpledged Non-Agency MBS. Our sources of liquidity do not include restricted cash. 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 an 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 an 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 these investments are accreted to interest income. Purchase premiums, which are primarily carried on our Agency MBS and certain CRT securities, 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 September 30, 2017, 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 September 30, 2017. 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 September 30, 2017 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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, 2016. 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, 2016. 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). 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 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 third quarter of 2017 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
July 1-31, 2017:					
Repurchase Program	*(2)*	—	$ —	—	6,616,355
Employee Transactions	*(3)*	552	8.53	N/A	N/A
August 1-31, 2017:					
Repurchase Program	*(2)*	—	—	—	6,616,355
Employee Transactions	*(3)*	3,676	8.79	N/A	N/A
September 1-30, 2017:					
Repurchase Program	*(2)*	—	—	—	6,616,355
Employee Transactions	*(3)*	140,195	$ 8.77	N/A	N/A
Total Repurchase Program	*(2)*	—	$ —	—	6,616,355
Total Employee Transactions	*(3)*	144,423	$ 8.77	N/A	N/A

(1) Includes brokerage commissions.
(2) As of September 30, 2017, 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.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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.

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: November 2, 2017	MFA FINANCIAL, INC.	
	(Registrant)	
	By:	/s/ Stephen D. Yarad
		Stephen D. Yarad
		Chief Financial Officer
		(Principal Financial Officer)

EXHIBIT INDEX

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

Exhibit	Description
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.

Exhibit 31.1

CERTIFICATION

I, Craig L. Knutson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MFA Financial, Inc. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 2, 2017

By: /s/ Craig L. Knutson
Name: Craig L. Knutson
Title: President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Stephen D. Yarad, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of MFA Financial, Inc. (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors:

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: November 2, 2017

By: /s/ Stephen D. Yarad

Name: Stephen D. Yarad

Title: Chief Financial Officer

Exhibit 32.1

Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

The undersigned, the Chief Executive Officer of MFA Financial, Inc. (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 (the "Form 10-Q"), filed herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Craig L. Knutson

Name: Craig L. Knutson

Title: President and Chief Executive Officer

Date: November 2, 2017

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes—Oxley Act of 2002, and is not being "filed" as part of the Form 10-Q or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference to any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

A signed original of this statement required by Section 906 had been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

The undersigned, the Chief Financial Officer of MFA Financial, Inc. (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 (the “Form 10-Q”), filed herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Stephen D. Yarad
Name: Stephen D. Yarad
Title: Chief Financial Officer

Date: November 2, 2017

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes—Oxley Act of 2002, and is not being “filed” as part of the Form 10-Q or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference to any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

A signed original of this statement required by Section 906 had been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.