

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2021

or

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**  
(State or other jurisdiction of incorporation or organization)

**One Vanderbilt Ave., 48th Floor**  
**New York New York**  
(Address of principal executive offices)

**13-3974868**  
(I.R.S. Employer Identification No.)

**10017**  
(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	MFA	New York Stock Exchange
7.50% Series B Cumulative Redeemable Preferred Stock, par value \$0.01 per share	MFA/PB	New York Stock Exchange
6.50% Series C Cumulative Redeemable Preferred Stock, par value \$0.01 per share	MFA/PC	New York Stock Exchange

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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

441,281,610 shares of the registrant's common stock, \$0.01 par value, were outstanding as of April 29, 2021.

## MFA FINANCIAL, INC.

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**MFA FINANCIAL, INC.  
CONSOLIDATED BALANCE SHEETS**

(In Thousands Except Per Share Amounts)	March 31, 2021 (Unaudited)	December 31, 2020
<b>Assets:</b>		
Residential whole loans:		
Residential whole loans, at carrying value (\$2,366,285 and \$2,704,646 pledged as collateral, respectively) (1)	\$ 3,932,300	\$ 4,195,332
Residential whole loans, at fair value (\$889,100 and \$827,001 pledged as collateral, respectively) (1)	1,320,199	1,216,902
Allowance for credit losses on residential whole loans held at carrying value	(63,244)	(86,833)
Total residential whole loans, net	5,189,255	5,325,401
Securities, at fair value (\$350,115 and \$399,999 pledged as collateral, respectively)	350,115	399,999
Cash and cash equivalents	780,714	814,354
Restricted cash	5,150	7,165
Other assets	392,726	385,381
<b>Total Assets</b>	<b>\$ 6,717,960</b>	<b>\$ 6,932,300</b>
<b>Liabilities:</b>		
Financing agreements (\$2,974,578 and \$3,366,772 held at fair value, respectively)	\$ 3,995,982	\$ 4,336,976
Other liabilities	179,712	70,522
<b>Total Liabilities</b>	<b>\$ 4,175,694</b>	<b>\$ 4,407,498</b>
Commitments and contingencies (See Note 10)		
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.01 par value; 7.5% Series B cumulative redeemable; 8,050 shares authorized; 8,000 shares issued and outstanding (\$200,000 aggregate liquidation preference)	\$ 80	\$ 80
Preferred stock, \$0.01 par value; 6.5% Series C fixed-to-floating rate cumulative redeemable; 12,650 shares authorized; 11,000 shares issued and outstanding (\$275,000 aggregate liquidation preference)	110	110
Common stock, \$0.01 par value; 874,300 and 874,300 shares authorized; 446,114 and 451,714 shares issued and outstanding, respectively	4,461	4,517
Additional paid-in capital, in excess of par	3,825,606	3,848,129
Accumulated deficit	(1,361,664)	(1,405,327)
Accumulated other comprehensive income	73,673	77,293
<b>Total Stockholders' Equity</b>	<b>\$ 2,542,266</b>	<b>\$ 2,524,802</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 6,717,960</b>	<b>\$ 6,932,300</b>

(1) Includes approximately \$1.5 billion and \$1.4 billion of Residential whole loans, at carrying value and \$311.6 million and \$382.3 million of Residential whole loans, at fair value transferred to consolidated variable interest entities ("VIEs") at March 31, 2021 and December 31, 2020, respectively. Such assets can be used only to settle the obligations of each respective 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 March 31,	
	2021	2020
<b>Interest Income:</b>		
Residential whole loans held at carrying value	\$ 45,340	\$ 83,486
Securities, at fair value	16,459	58,581
Other interest-earning assets	—	2,907
Cash and cash equivalent investments	54	486
<b>Interest Income</b>	<b>\$ 61,853</b>	<b>\$ 145,460</b>
<b>Interest Expense:</b>		
Asset-backed and other collateralized financing arrangements	\$ 26,050	\$ 77,859
Other interest expense	4,020	5,900
<b>Interest Expense</b>	<b>\$ 30,070</b>	<b>\$ 83,759</b>
<b>Net Interest Income</b>	<b>\$ 31,783</b>	<b>\$ 61,701</b>
<b>Reversal/(Provision) for credit and valuation losses on residential whole loans</b>	<b>\$ 22,750</b>	<b>\$ (150,711)</b>
<b>Net Interest Income after Provision for Credit and Valuation Losses</b>	<b>\$ 54,533</b>	<b>\$ (89,010)</b>
<b>Other Income, net:</b>		
Impairment and other losses on securities available-for-sale and other assets	\$ —	\$ (419,651)
Net realized loss on sales of securities and residential whole loans	—	(238,380)
Net unrealized gain/(loss) on securities measured at fair value through earnings	101	(77,961)
Net gain/(loss) on residential whole loans measured at fair value through earnings	49,809	(52,760)
Other, net	3,607	(2,011)
<b>Other Income/(Loss), net</b>	<b>\$ 53,517</b>	<b>\$ (790,763)</b>
<b>Operating and Other Expense:</b>		
Compensation and benefits	\$ 8,437	\$ 8,899
Other general and administrative expense	6,792	4,575
Loan servicing, financing and other related costs	7,299	11,280
Costs associated with restructuring/forbearance agreement	—	4,468
<b>Operating and Other Expense</b>	<b>\$ 22,528</b>	<b>\$ 29,222</b>
<b>Net Income/(Loss)</b>	<b>\$ 85,522</b>	<b>\$ (908,995)</b>
Less Preferred Stock Dividend Requirement	\$ 8,219	\$ 5,215
<b>Net Income/(Loss) Available to Common Stock and Participating Securities</b>	<b>\$ 77,303</b>	<b>\$ (914,210)</b>
<b>Basic Earnings/(Loss) per Common Share</b>	<b>\$ 0.17</b>	<b>\$ (2.02)</b>
<b>Diluted Earnings/(Loss) per Common Share</b>	<b>\$ 0.17</b>	<b>\$ (2.02)</b>

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

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

<b>(In Thousands)</b>	<b>Three Months Ended</b>	
	<b>2021</b>	<b>March 31,</b>
	<b>2020</b>	<b>2020</b>
Net income/(loss)	\$ 85,522	\$ (908,995)
Other Comprehensive (Loss):		
Unrealized (losses)/gains on securities available-for-sale	(3,855)	124,410
Reclassification adjustment for securities sales included in net income	—	(23,953)
Reclassification adjustment for impairments included in net income	—	(344,269)
Derivative hedging instrument fair value changes, net	—	(50,127)
Changes in fair value of financing agreements at fair value due to changes in instrument-specific credit risk	235	—
Reclassification adjustment for losses related to hedging instruments included in net income	—	1,594
Other Comprehensive (Loss)	(3,620)	(292,345)
Comprehensive income/(loss) before preferred stock dividends	\$ 81,902	\$ (1,201,340)
Dividends required on preferred stock	(8,219)	(5,215)
Comprehensive Income/(Loss) Available to Common Stock and Participating Securities	\$ 73,683	\$ (1,206,555)

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

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

Three Months Ended March 31, 2021

(In Thousands, Except Per Share Amounts)	Preferred Stock 6.50% Series C Fixed-to- Floating Rate Cumulative Redeemable - Liquidation Preference \$25.00 per Share		Preferred Stock 7.50% Series B Cumulative Redeemable - Liquidation Preference \$25.00 per Share		Common Stock		Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2020	11,000	\$ 110	8,000	\$ 80	451,714	\$ 4,517	\$ 3,848,129	\$ (1,405,327)	\$ 77,293	\$ 2,524,802
Net Income	—	—	—	—	—	—	—	85,522	—	85,522
Issuance of common stock, net of expenses	—	—	—	—	559	6	376	—	—	382
Repurchase of shares of common stock (1)	—	—	—	—	(6,159)	(62)	(25,074)	—	—	(25,136)
Equity based compensation expense	—	—	—	—	—	—	1,686	—	—	1,686
Change in accrued dividends attributable to stock-based awards	—	—	—	—	—	—	489	—	—	489
Dividends declared on common stock (\$0.075 per share)	—	—	—	—	—	—	—	(33,521)	—	(33,521)
Dividends declared on Series B Preferred Stock (\$0.46875 per share)	—	—	—	—	—	—	—	(3,750)	—	(3,750)
Dividends declared on Series C Preferred Stock (\$0.40625 per share)	—	—	—	—	—	—	—	(4,468)	—	(4,468)
Dividends attributable to dividend equivalents	—	—	—	—	—	—	—	(120)	—	(120)
Change in unrealized gains on MBS, net	—	—	—	—	—	—	—	—	(3,855)	(3,855)
Derivative hedging instrument fair value changes and amortization, net	—	—	—	—	—	—	—	—	—	—
Changes in fair value of financing agreements at fair value due to changes in instrument-specific credit risk	—	—	—	—	—	—	—	—	235	235
Balance at March 31, 2021	11,000	\$ 110	8,000	\$ 80	446,114	\$ 4,461	\$ 3,825,606	\$ (1,361,664)	\$ 73,673	\$ 2,542,266

(1) For the three months ended March 31, 2021 includes approximately \$799,000 (213,123 shares) surrendered for tax purposes related to equity-based compensation awards.

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

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

Three Months Ended March 31, 2020

(In Thousands, Except Per Share Amounts)	Preferred Stock 6.50% Series C Fixed-to- Floating Rate Cumulative Redeemable - Liquidation Preference \$25.00 per Share		Preferred Stock 7.50% Series B Cumulative Redeemable - Liquidation Preference \$25.00 per Share		Common Stock		Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	—	—	8,000	\$ 80	452,369	\$ 4,524	\$ 3,640,341	\$ (631,040)	\$ 370,047	\$ 3,383,952
Cumulative effect adjustment on adoption of new accounting standard ASU 2016-13	—	—	—	—	—	—	—	(8,326)	—	(8,326)
Net loss	—	—	—	—	—	—	—	(908,995)	—	(908,995)
Issuance of Series C Preferred Stock, net of expenses	11,000	110	—	—	—	—	265,919	—	—	266,029
Issuance of common stock, net of expenses	—	—	—	—	1,106	7	680	—	—	687
Repurchase of shares of common stock (1)	—	—	—	—	(337)	—	(2,652)	—	—	(2,652)
Equity based compensation expense	—	—	—	—	—	—	1,266	—	—	1,266
Change in accrued dividends attributable to stock-based awards	—	—	—	—	—	—	1,059	—	—	1,059
Change in unrealized losses on securities, net	—	—	—	—	—	—	—	—	(243,812)	(243,812)
Derivative hedging instruments fair value changes and amortization, net	—	—	—	—	—	—	—	—	(48,533)	(48,533)
Balance at March 31, 2020	11,000	\$ 110	8,000	\$ 80	453,138	\$ 4,531	\$ 3,906,613	\$ (1,548,361)	\$ 77,702	\$ 2,440,675

(1) For the three months ended March 31, 2020, includes approximately \$2.7 million (337,026 shares) surrendered for tax purposes related to equity-based compensation awards.

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

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

(In Thousands)	Three Months Ended March 31,	
	2021	2020
<b>Cash Flows From Operating Activities:</b>		
Net income/(loss)	\$ 85,522	\$ (908,995)
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gains)/losses on residential whole loans and real estate owned, net	(35,893)	217,920
(Gains)/losses on securities, net	(100)	170,550
Impairment and other losses on securities available-for-sale and other assets	—	419,651
Accretion of purchase discounts on residential whole loans and securities	(16,436)	(12,114)
Amortization of purchase premiums on residential whole loans and securities, and amortization of terminated hedging instruments	6,791	15,266
(Reversal of provision)/provision for credit and valuation losses on residential whole loans and other financial instruments	(23,967)	150,711
Net other non-cash losses included in net income	5,212	7,689
Increase in other assets	(1,939)	(37,811)
Increase/(decrease) in other liabilities	4,975	(9,653)
Net cash provided by operating activities	<u>\$ 24,165</u>	<u>\$ 13,214</u>
<b>Cash Flows From Investing Activities:</b>		
Purchases of residential whole loans, loan related investments and capitalized advances	\$ (184,707)	\$ (1,119,464)
Principal payments on residential whole loans and loan related investments	425,300	508,855
Purchases of securities	—	(162,607)
Proceeds from sales of securities and other assets	—	1,009,316
Principal payments on securities	58,896	539,882
Purchases of real estate owned and capital improvements	(217)	(5,606)
Proceeds from sales of real estate owned	50,619	52,042
Additions to leasehold improvements, furniture and fixtures	(4,415)	(176)
Net cash provided by investing activities	<u>\$ 345,476</u>	<u>\$ 822,242</u>
<b>Cash Flows From Financing Activities:</b>		
Principal payments on financing agreements with mark-to-market collateral provisions	\$ (821,716)	\$ (12,903,818)
Proceeds from borrowings under financing agreements with mark-to-market collateral provisions	663,926	12,216,862
Principal payments on other collateralized financing agreements	(521,259)	(37,418)
Proceeds from borrowings under other collateralized financing agreements	437,915	—
Payment made for other collateralized financing agreement related costs	(1,371)	—
Principal payment on redemption of Senior notes	(100,000)	—
Payments made for settlements and unwinds of Swaps	—	(88,405)
Proceeds from issuance of series C preferred stock	—	275,000
Payments made for costs related to series C preferred stock issuance	—	(8,912)
Proceeds from issuances of common stock	376	687
Payments made for the repurchase of common stock through the share repurchase program	(20,933)	—
Dividends paid on preferred stock	(8,219)	—
Dividends paid on common stock and dividend equivalents	(34,015)	(90,749)
Net cash used in financing activities	<u>\$ (405,296)</u>	<u>\$ (636,753)</u>
Net (decrease)/increase in cash, cash equivalents and restricted cash	<u>\$ (35,655)</u>	<u>\$ 198,703</u>
Cash, cash equivalents and restricted cash at beginning of period	<u>\$ 821,519</u>	<u>\$ 134,664</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 785,864</u>	<u>\$ 333,367</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest Paid	<u>\$ 29,554</u>	<u>\$ 80,158</u>
<b>Non-cash Investing and Financing Activities:</b>		
Transfer from residential whole loans to real estate owned	<u>\$ 20,068</u>	<u>\$ 50,693</u>
Dividends and dividend equivalents declared and unpaid	<u>\$ 33,640</u>	<u>\$ —</u>
Payable for unsettled residential whole loan purchases	<u>\$ 112,202</u>	<u>\$ —</u>
Receivable for unsettled residential whole loan and securities sales	<u>\$ —</u>	<u>\$ 419,583</u>

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



**MFA FINANCIAL, INC.**  
**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2021**

**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 taxable REIT subsidiaries (“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 Note 2(m)).

**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 in accordance with 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, 2020. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial condition of the Company at March 31, 2021 and results of operations for all periods presented have been made. The results of operations for the three months ended March 31, 2021 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, impairment, valuation allowances and loss allowances on residential whole loans (see Note 3), MBS, CRT securities and MSR-related assets (collectively, “Securities, at fair value”) (see Note 4) and Other assets (see Note 5), valuation of Securities, at fair value (see Notes 4 and 14), income recognition and valuation of residential whole loans (see Notes 3 and 14), valuation of derivative instruments (see Notes 5(c) and 14) and income recognition on certain Non-Agency MBS (defined below) purchased at a discount (see Note 4). 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(m)). 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 transactions related to the acquisition and securitization of residential whole loans completed in prior years. Certain prior period amounts have been reclassified to conform to the current period presentation.

**MFA FINANCIAL, INC.**  
**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2021**

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

Residential whole loans included in the Company's consolidated balance sheets are primarily comprised of pools of fixed- and adjustable-rate residential mortgage loans acquired through consolidated trusts in secondary market transactions. 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 for Purchased Credit Deteriorated Loans that are held at carrying value is typically utilized by the Company for Purchased Credit Deteriorated Loans where the underlying borrower has a delinquency status of less than 60 days at the acquisition date. The Company also acquires Purchased Performing Loans that are typically held at carrying value, but the accounting methods for income recognition and determination and measurement of any required credit loss reserves (as discussed below) differ from those used for Purchased Credit Deteriorated Loans held at carrying value. The accounting model described below for residential whole loans held 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 financing agreements are included in the consolidated balance sheets with amounts pledged disclosed parenthetically. Purchases and sales of residential whole loans that are subject to an extended period of due diligence that crosses a reporting date are recorded in our balance sheet at amounts 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. Residential whole loans purchased under flow arrangements with loan origination partners are generally recorded at the transaction settlement date. 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 financing agreement until the closing of the purchase transaction. Interest income, credit related losses and changes in the fair value of loans held at fair value are recorded post settlement for acquired loans and until transaction settlement for sold loans (see Notes 3, 6, 7, 14 and 15).

*Residential Whole Loans at Carrying Value*

**Purchased Performing Loans**

Acquisitions of Purchased Performing Loans to date have been primarily comprised of: (i) loans to finance (or refinance) one-to-four family residential properties that are not considered to meet the definition of a "Qualified Mortgage" in accordance with guidelines adopted by the Consumer Financial Protection Bureau ("Non-QM loans"), (ii) short-term business purpose loans collateralized by residential properties made to non-occupant borrowers who intend to rehabilitate and sell the property for a profit ("Rehabilitation loans" or "Fix and Flip loans"), (iii) loans to finance (or refinance) non-owner occupied one-to four-family residential properties that are rented to one or more tenants ("Single-family rental loans"), and (iv) previously originated loans secured by residential real estate that is generally owner occupied ("Seasoned performing loans"). Purchased Performing Loans are initially recorded at their purchase price. Interest income on Purchased Performing Loans acquired at par is accrued based on each loan's current interest bearing balance and current interest rate, net of related servicing costs. Interest income on such loans purchased at a premium/discount to par is recorded each period based on the contractual coupon net of any amortization of premium or accretion of discount, adjusted for actual prepayment activity. For loans acquired with related servicing rights retained by the seller, interest income is reported net of related serving costs.

An allowance for credit losses is recorded at acquisition, and maintained on an ongoing basis, for all losses expected over the life of the respective loan. Any required credit loss allowance would reduce the net carrying value of the loan with a corresponding charge to earnings, and may increase or decrease over time. Significant judgments are required in determining any allowance for credit loss, including assumptions regarding the loan cash flows expected to be collected, the value of the underlying collateral and the ability of the Company to collect on any other forms of security, such as a personal guaranty provided either by the borrower or an affiliate of the borrower. Income recognition is suspended, and interest accruals are reversed against income, for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful (i.e., such loans are placed on nonaccrual status). For nonaccrual loans other than Fix and Flip loans, all payments are applied to principal under the cost recovery method. For nonaccrual Fix and Flip loans, interest income is recorded under the cash basis method as interest payments are received. Interest accruals are resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or it is legally discharged. Modified loans are considered "troubled debt

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restructurings” if the Company grants a concession to a borrower who is experiencing financial difficulty (including the interpretation of this definition set forth in OCC Bulletin 2020-35).

Charge-offs to the allowance for loan losses occur when losses are confirmed through the receipt of cash or other consideration from the completion of a sale; when a modification or restructuring takes place in which we grant a concession to a borrower or agree to a discount in full or partial satisfaction of the loan; when we take ownership and control of the underlying collateral in full satisfaction of the loan; when loans are reclassified as other investments; or when significant collection efforts have ceased and it is highly likely that a loss has been realized.

The aggregate allowance for credit losses is equal to the sum of the losses expected over the life of each respective loan. Expected losses are generally calculated based on the estimated probability of default and loss severity of loans in the portfolio, which involves projecting each loan’s expected cash flows based on their contractual terms, expected prepayments, and estimated default and loss severity rates. The results were not discounted. The default and severity rates were estimated based on the following steps: (i) obtained the Company’s historical experience through an entire economic cycle for each loan type or, to the extent the Company did not have sufficient historical loss experience for a given loan type, publicly available data derived from the historical loss experience of certain banks, which data the Company believes is generally representative of its portfolio, (ii) obtained historical economic data (U.S. unemployment rates and home price appreciation) over the same period, and (iii) estimated default and severity rates during three distinct future periods based on historical default and severity rates during periods when economic conditions similar to those forecasted were experienced. The default and severity rates were applied to the estimated amount of loans outstanding during each future period, based on contractual terms and expected prepayments. Expected prepayments are estimated based on historical experience and current and expected future economic conditions, including market interest rates. The three periods were as follows: (i) a one-year forecast of economic conditions based on U.S. unemployment rates and home price appreciation, followed by (ii) a two-year “reversion” period during which economic conditions (U.S. unemployment rates and home price appreciation) are projected to revert to historical averages on a straight line basis, followed by (iii) the remaining life of each loan, during which period economic conditions (U.S. unemployment rates and home price appreciation) are projected to equal historical averages. In addition, a liability is established (and recorded in Other Liabilities) each period using a similar methodology for committed but undrawn loan amounts. The Company forecasts future economic conditions based on forecasts provided by an external preparer of economic forecasts, as well as its own knowledge of the market and its portfolio. The Company generally considers multiple scenarios and selects the one that it believes results in the most reasonable estimate of expected losses. The Company may apply qualitative adjustments to these results as further described in Note 3. For certain loans where foreclosure has been deemed to be probable, loss estimates are based on whether the value of the underlying collateral is sufficient to recover the carrying value of the loan. This methodology has not changed from the calculation of the allowance for credit losses on January 1, 2020 pursuant to the transition to Accounting Standards Update (“ASU”) 2016-13 as described below under “New Accounting Standards and Interpretations,” other than a change in the reversion period from one year to two years to reflect the expected ongoing impact of current conditions (see Note 3).

#### Purchased Credit Deteriorated Loans

The Company has elected to account for these loans as credit deteriorated as they have experienced a more-than-insignificant deterioration in credit quality since origination and were acquired at discounted prices that reflect, in part, the impaired credit history of the borrower. Substantially all of these loans have previously experienced payment delinquencies and the amount owed may exceed the value of the property pledged as collateral. Consequently, these loans generally have a higher likelihood of default than newly originated mortgage loans with loan-to-value ratios (“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. Loans considered credit deteriorated are initially recorded at the purchase price on a net basis, after establishing an initial allowance for credit losses (their initial cost basis is equal to their purchase price plus the initial allowance for credit losses). Subsequent to acquisition, the gross recorded amount for these loans reflects the initial cost basis, 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 cost basis reduced by any allowance for credit losses. Interest income on such loans purchased is recorded each period based on the contractual coupon net of amortization of the difference between their cost basis and unpaid principal balance (“UPB”), subject to the Company’s nonaccrual policy.

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*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 the time of acquisition. For the majority of these loans, there is significant uncertainty associated with estimating the timing of and amount of cash flows that will be collected. Further, the cash flows ultimately collected may be dependent on the value of the property securing the loan. Consequently, the Company considers that accounting for these loans at fair value should result in a better reflection over time of the economic returns for the majority of 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 that 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 (loss)/gain on residential whole loans measured at fair value through earnings on the Company's consolidated statements of operations.

Income received in cash or accrued, including coupon interest, on residential whole loans held at fair value is not included in Interest Income, but rather is included in Net (loss)/gain on residential whole loans measured at fair value through earnings 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 unrealized gains or losses reported each period.

**(c) Securities, at Fair Value**

*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 4, 6, 7 and 14).

*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 treated as "available-for-sale" ("AFS") securities and reported at fair value on the Company's consolidated balance sheets with unrealized gains and losses excluded from earnings and reported in Accumulated other comprehensive income/(loss) ("AOCI"), a component of Stockholders' Equity, subject to impairment and loss allowances. Interest income is recognized on an accrual basis on the Company's consolidated statements of operations. The Company's valuation process for such notes is similar to that used for residential mortgage securities and 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. Other factors taken into consideration include estimated changes in fair value of the related underlying MSR collateral, as applicable, 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 Loans*

The Company has made or participated in loans to provide financing to entities that originate residential mortgage loans and own the related MSRs. These corporate loans are generally secured by certain MSRs, as well as certain other unencumbered assets owned by the borrower.

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Corporate loans are 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, subject to loss allowances. 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 are recorded as Other Income on the Company's consolidated statements of operations. The Company evaluates the recoverability of its corporate loans on a quarterly basis considering various factors, including the current status of the loan, changes in the fair value of the MSRs that secure the loan and the recent financial performance of the borrower.

#### *Residential Mortgage Securities*

Prior to the quarter ended June 30, 2020, the Company had invested in residential mortgage-backed securities ("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"). The Company disposed of its investments in Agency MBS during 2020 and has substantially reduced its investments in Non-Agency MBS. In addition, the Company has investments in CRT securities that are issued by or sponsored by Fannie Mae and Freddie Mac. The coupon payments on CRT securities are paid by the issuer and the principal payments received are dependent on the performance of loans in either a reference pool or an actual pool of loans. As the loans in the underlying pool are paid, the principal balance of the CRT securities is paid. As an investor in a CRT security, the Company may incur a principal loss if the performance of the actual or reference pool loans results in either an actual or calculated loss that exceeds the credit enhancement of the security owned by the Company.

#### Designation

MBS that the Company generally intends to hold until maturity, but that it may sell from time to time as part of the overall management of its business, are designated as AFS. Such MBS are carried at their fair value with unrealized gains and losses excluded from earnings (except when an allowance for loan losses is recognized, as discussed below) and reported in 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 had elected the fair value option for certain of its previously held Agency MBS that it did not intend to hold to maturity. These securities were 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.

In addition, 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 their 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.

#### Determination of Fair Value for Residential Mortgage Securities

In determining the fair value of the Company's residential mortgage 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 14).

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#### Allowance for credit losses

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, as well as securities for which a credit loss allowance had been previously recorded, on at least a quarterly basis and determines whether any changes to the allowance for credit losses are required. 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 a write-down 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 impaired security, only the portion of the impairment related to credit losses is recognized through a loss allowance charged to earnings with the remainder recognized through AOCI on the Company's consolidated balance sheets. Impairments recognized through other comprehensive income/(loss) ("OCI") do not impact earnings. Credit loss allowances are subject to reversal through earnings resulting from improvements in expected cash flows. The determination as to whether to record (or reverse) a credit loss allowance is subjective, as such determinations are based on factual information available at the time of assessment as well as the Company's estimates of future performance and cash flow projections. As a result, the timing and amount of losses constitute material estimates that are susceptible to significant change (see Note 4).

#### Balance Sheet Presentation

The Company's residential mortgage securities pledged as collateral against financing agreements and interest rate swap agreements ("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.

#### *(d) 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 financing 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 March 31, 2021 and December 31, 2020. At March 31, 2021 and December 31, 2020, the Company had cash and cash equivalents of \$780.7 million and \$814.4 million, respectively. At March 31, 2021, the Company had \$721.7 million of investments in overnight money market funds, which are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. As of December 31, 2020, the Company had \$752.4 million worth of investments in overnight money market funds. In addition, deposits in FDIC insured accounts generally exceed insured limits (see Notes 7 and 14).

#### *(e) Restricted Cash*

Restricted cash represents the Company's cash held by its counterparties in connection with certain of the Company's Swaps and/or financing agreements that is not available to the Company for general corporate purposes. Restricted cash may be applied against amounts due to financing 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 and/or financing agreements. The Company had aggregate restricted cash held as collateral or otherwise in connection with its financing agreements and/or Swaps of \$5.2 million and \$7.2 million at March 31, 2021 and December 31, 2020, respectively (see Notes 5(c), 6, 7 and 14).

#### *(f) 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. The Company has acquired certain properties that it holds for investment purposes, including rentals to third parties. These properties are held at their historical basis less depreciation, and are subject to impairment. Related rental income and expenses are recorded in Other Income, net (see Note 5).

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**(g) Leases and Depreciation**

*Leases*

The Company records its operating lease liabilities and operating lease right-of-use assets on its consolidated balance sheets. The operating lease liabilities are equal to the present value of the remaining fixed lease payments (excluding real estate tax and operating expense escalations) discounted at the Company's estimated incremental borrowing rate at the date of lease commencement, and the operating lease right-of-use assets are equal to the operating lease liabilities adjusted for lease incentives and initial direct costs. As lease payments are made, the operating lease liabilities are reduced to the present value of the remaining lease payments and the operating lease right-of-use assets are reduced by the difference between the lease expense (straight-lined over the lease term) and the theoretical interest expense amount (calculated using the incremental borrowing rate at the date of lease commencement). See Note 10 for further discussion on leases.

*Leasehold Improvements, Real estate 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. The building component of real estate held-for-investment is depreciated over 27.5 years.

**(h) Loan Securitization and Other Debt Issuance Costs**

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 financing transactions completed by the Company. These costs may include underwriting, rating agency, legal, accounting and other fees. Such costs, which reflect deferred charges (unless the debt is recorded at fair value, as discussed below), 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 certain financing agreements, 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.

**(i) Financing Agreements**

The Company finances the majority of its residential mortgage assets with financing agreements that include repurchase agreements and other forms of collateralized financing. Under repurchase agreements, the Company sells assets to a lender and agrees to repurchase the same assets 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 and other forms of collateralized financing, the Company pledges its assets as collateral to secure the borrowing, in an amount which is equal 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 assets 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 assets 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 collateralized by residential mortgage securities and MSR-related assets typically have terms ranging from one month to six months at inception, while the majority of our financing arrangements collateralized by residential whole loans have terms of twelve months or longer. Should a counterparty decide not to renew a financing arrangement at maturity, the Company must either refinance elsewhere or be in a position to satisfy the obligation. If, during the term of a financing, a lender should default on its obligation, the Company might experience difficulty recovering its

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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 on such collateral (see Notes 6, 7 and 14).

The Company has elected the fair value option on certain of its financing agreements. These agreements are reported at their fair value, with changes in fair value being recorded in earnings each period (or other comprehensive income, to the extent the change results from a change in instrument specific credit risk), as further detailed in Note 6. Financing costs, including “up front” fees paid at inception related to financing agreements at fair value are expensed as incurred. Interest expense is recorded based on the current interest rate in effect for the related agreement.

**(j) 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.

The Company has made annual grants of restricted stock units (“RSUs”) certain of which cliff vest after a three-year period, subject only to continued employment, and others of which cliff vest after a three-year period, subject to both continued employment and the achievement of certain performance criteria based on a formula tied to the Company’s achievement of average total shareholder return during that three-year period, as well as the total shareholder return (“TSR”) of the Company relative to the TSR of a group of peer companies (over the three-year period) selected by the Compensation Committee of the Company’s Board of Directors (the “Compensation Committee”) at the date of grant. The features in these awards related to the attainment of total shareholder 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 makes dividend equivalent payments in connection with certain of its equity-based awards. 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 Company’s Equity Compensation Plan (the “Equity Plan”), and they are paid in cash or other consideration at such times and in accordance with such rules, terms and conditions, as the Compensation Committee may determine in its discretion. 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 (i) do not or are not expected to vest and (ii) grantees are not required to return payments of dividends or dividend equivalents to the Company (see Notes 2(k) and 13).

**(k) 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 dividend equivalents attached to/associated with RSUs, 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 RSUs outstanding that are unvested and have dividends that are subject to forfeiture, and for the effect of outstanding warrants, 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 (if any), are used to repurchase shares of the Company’s outstanding common stock at the average market price during the reported period. In addition, the Company’s Convertible Senior Notes are included in the calculation of diluted EPS if the assumed conversion into common shares is dilutive, using the “if-converted” method. This calculation involves adding back the periodic interest expense associated with the Convertible Senior Notes to the numerator and by adding the shares that would be issued in an assumed conversion (regardless of whether the conversion option is in or out of the money) to the denominator for the purposes of calculating diluted EPS (see Note 12).



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***(l) 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 terminated hedging relationships, as well as the portion of unrealized gains/(losses) on its financing agreements held at fair value related to instrument-specific credit risk, and is reduced by dividends declared on the Company's preferred stock and issuance costs of redeemed preferred stock.

***(m) 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% of 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 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 domestic TRS is subject to U.S. federal, state and local corporate income taxes. Given that a portion of the Company's business is conducted through one or more TRS, the net taxable income earned by its domestic TRS, if any, is subject to corporate income taxation. To maintain the Company's REIT election, no more than 20% of the value of the Company'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 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 net deferred tax benefit was recorded by the Company for the three months ended March 31, 2021 and 2020, related to the net taxable losses in the TRS, since a valuation allowance for the full amount of the associated deferred tax asset of approximately \$74.4 million was recognized as its recovery is not considered more likely than not. The related net operating loss carryforwards generated prior to 2018 will begin to expire in 2034; those generated in 2021, 2020 and 2019 can be carried back to each of the five taxable years preceding the taxable year of such loss and thereafter can be carried forward and do not expire.

Based on its analysis of any potentially 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 March 31, 2021, December 31, 2020, or March 31, 2020. As of the date of this filing, the Company's tax returns for tax years 2017 through 2019 are open to examination.

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**(n) 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 have generally been comprised of Swaps, the majority of which were 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 the inception of a hedge and on a quarterly basis thereafter, whether or not the hedge is "highly effective."

During the first quarter of 2020, the Company terminated all of its Swaps. Prior to their termination, Swaps were carried on the Company's consolidated balance sheets at fair value, in Other assets, if their fair value was positive, or in Other liabilities, if their fair value was negative. Changes in the fair value of the Company's Swaps previously designated in hedging transactions are recorded in OCI provided that the hedge remains effective. Periodic payments accrued in connection with Swaps designated as hedges are included in interest expense and are treated as an operating cash flow.

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 (see Notes 5(c), 7 and 14).

Changes in the fair value of the Company's Swaps not designated in hedging transactions are recorded in Other income, net on the Company's consolidated statements of operations.

**(o) 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 financial assets and liabilities at the time of acquisition or issuance. Subsequent changes in the fair value of these financial instruments are generally reported in Other income, net, in 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(b), 2(c), 3, 4, and 14).

**(p) 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 the 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) the holders of the equity investment at risk have disproportional voting rights and the entity's activities are conducted on behalf of the investor that has disproportionately few voting rights.

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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 entered into several financing transactions which resulted in the Company forming entities 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 are 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 15).

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.

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

Offering costs related to the 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.

***(r) New Accounting Standards and Interpretations***

Accounting Standards Adopted in 2021

*ASU 2020-06 Early Adoption*

In August 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40) Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* (or ASU 2020-06). ASU 2020-06 was issued in order to reduce the complexity associated with recording financial instruments with characteristics of both liabilities and equity by eliminating certain accounting models associated with such instruments and enhancing disclosure requirements. The Company early adopted ASU 2020-06 in the first quarter of 2021 and it did not have a material impact on the Company's accounting or disclosures.

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### 3. Residential Whole Loans

Included on the Company's consolidated balance sheets at March 31, 2021 and December 31, 2020 are approximately \$5.2 billion and \$5.3 billion, respectively, of residential whole loans arising from the Company's interests in certain trusts established to acquire the loans and certain entities established in connection with its loan securitization transactions. The Company has assessed that these entities are required to be consolidated for financial reporting purposes.

#### *Residential Whole Loans, at Carrying Value*

The following table presents the components of the Company's Residential whole loans, at carrying value at March 31, 2021 and December 31, 2020:

<b>(Dollars In Thousands)</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>
<b>Purchased Performing Loans:</b>		
Non-QM loans	\$ 2,243,444	\$ 2,357,185
Rehabilitation loans	464,385	581,801
Single-family rental loans	451,791	446,374
Seasoned performing loans	128,069	136,264
<b>Total Purchased Performing Loans</b>	<b>3,287,689</b>	<b>3,521,624</b>
<b>Purchased Credit Deteriorated Loans</b>	<b>644,611</b>	<b>673,708</b>
<b>Total Residential whole loans, at carrying value</b>	<b>\$ 3,932,300</b>	<b>\$ 4,195,332</b>
<b>Allowance for credit losses on residential whole loans held at carrying value</b>	<b>(63,244)</b>	<b>(86,833)</b>
<b>Total Residential whole loans at carrying value, net</b>	<b>\$ 3,869,056</b>	<b>\$ 4,108,499</b>
<b>Number of loans</b>	<b>12,575</b>	<b>13,112</b>

The following table presents the components of interest income on the Company's Residential whole loans, at carrying value for the three months ended March 31, 2021 and 2020:

<b>(In Thousands)</b>	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>2020</b>
	<b>2021</b>	<b>2020</b>
<b>Purchased Performing Loans:</b>		
Non-QM loans (1)	\$ 22,114	\$ 49,070
Rehabilitation loans	6,668	15,327
Single-family rental loans	6,278	7,343
Seasoned performing loans	1,990	2,600
<b>Total Purchased Performing Loans</b>	<b>37,050</b>	<b>74,340</b>
<b>Purchased Credit Deteriorated Loans</b>	<b>8,290</b>	<b>9,146</b>
<b>Total Residential whole loans, at carrying value</b>	<b>\$ 45,340</b>	<b>\$ 83,486</b>

(1) Includes interest income on Non-QM loans held-for-sale at March 31, 2020.

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The following table presents additional information regarding the Company's Residential whole loans, at carrying value at March 31, 2021:

**March 31, 2021**

(Dollars In Thousands)	Carrying Value	Amortized Cost Basis	Unpaid Principal Balance ("UPB")	Weighted Average Coupon (1)	Weighted Average Term to Maturity (Months)	Weighted Average LTV Ratio (2)	Weighted Average Original FICO (3)	Aging by Amortized Cost Basis			
								Past Due Days			
								Current	30-59	60-89	90+
<b>Purchased Performing Loans:</b>											
Non-QM loans (4)	\$ 2,228,899	\$ 2,243,444	\$ 2,183,662	5.82 %	350	64 %	713	\$ 1,975,505	\$ 89,767	\$ 42,912	\$ 135,260
Rehabilitation loans (4)	450,717	464,385	464,385	7.23	3	64	719	293,931	21,296	12,167	136,991
Single-family rental loans (4)	449,045	451,791	447,072	6.29	320	70	730	421,258	4,507	1,935	24,091
Seasoned performing loans (4)	128,003	128,069	139,847	3.12	169	39	723	115,315	2,445	1,589	8,721
<b>Purchased Credit Deteriorated Loans (4)(5)</b>											
	612,392	644,611	751,759	4.49	285	75	N/A	N/M	N/M	N/M	117,509
Residential whole loans, at carrying value, total or weighted average	\$ 3,869,056	\$ 3,932,300	\$ 3,986,725	5.72 %	288						

**December 31, 2020**

(Dollars In Thousands)	Carrying Value	Amortized Cost Basis	Unpaid Principal Balance ("UPB")	Weighted Average Coupon (1)	Weighted Average Term to Maturity (Months)	Weighted Average LTV Ratio (2)	Weighted Average Original FICO (3)	Aging by Amortized Cost Basis			
								Past Due Days			
								Current	30-59	60-89	90+
<b>Purchased Performing Loans:</b>											
Non-QM loans (4)	\$ 2,336,117	\$ 2,357,185	\$ 2,294,086	5.84 %	351	64 %	712	\$ 2,099,134	\$ 73,163	\$ 36,501	\$ 148,387
Rehabilitation loans (4)	563,430	581,801	581,801	7.29	3	63	719	390,706	29,315	25,433	136,347
Single-family rental loans (4)	442,456	446,374	442,208	6.32	324	70	730	415,386	6,652	3,948	20,388
Seasoned performing loans (4)	136,157	136,264	149,004	3.30	171	40	723	124,877	2,186	1,170	8,031
<b>Purchased Credit Deteriorated Loans (4)(5)</b>											
	630,339	673,708	782,319	4.46	287	76	N/A	N/M	N/M	N/M	119,621
Residential whole loans, at carrying value, total or weighted average	\$ 4,108,499	\$ 4,195,332	\$ 4,249,418	5.77 %	282						

- (1) Weighted average is calculated based on the interest bearing principal balance of each loan within the related category. For loans acquired with servicing rights released by the seller, interest rates included in the calculation do not reflect loan servicing fees. For loans acquired with servicing rights retained by the seller, interest rates included in the calculation are net of servicing fees.
- (2) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling \$151.7 million and \$189.9 million at March 31, 2021 and December 31, 2020, respectively, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. The weighted average LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting, is 68% and 69% at March 31, 2021 and December 31, 2020, respectively. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots, for which the LTV ratio is not meaningful.
- (3) Excludes loans for which no Fair Isaac Corporation ("FICO") score is available.
- (4) At March 31, 2021 and December 31, 2020 the difference between the Carrying Value and Amortized Cost Basis represents the related allowance for credit losses.
- (5) Purchased Credit Deteriorated Loans tend to be characterized by varying performance of the underlying borrowers over time, including loans where multiple months of payments are received in a period to bring the loan to current status, followed by months where no payments are received. Accordingly, delinquency information is presented only for loans that are more than 90 days past due.

No Residential whole loans, at carrying value were sold during the three months ended March 31, 2021. During the three months ended March 31, 2020, \$659.9 million of Non-QM loans were sold, realizing losses of \$145.8 million.

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*Allowance for Credit Losses*

The following table presents a roll-forward of the allowance for credit losses on the Company's Residential Whole Loans, at Carrying Value:

(Dollars In Thousands)	Three Months Ended March 31, 2021					Totals
	Non-QM Loans	Rehabilitation Loans (1) (2)	Single-family Rental Loans	Seasoned Performing Loans	Purchased Credit Deteriorated Loans (3)	
Allowance for credit losses at December 31, 2020	\$ 21,068	\$ 18,371	\$ 3,918	\$ 107	\$ 43,369	\$ 86,833
Current provision	(6,523)	(3,700)	(1,172)	(41)	(10,936)	(22,372)
Write-offs	—	(1,003)	—	—	(214)	(1,217)
Allowance for credit losses at March 31, 2021	<u>\$ 14,545</u>	<u>\$ 13,668</u>	<u>\$ 2,746</u>	<u>\$ 66</u>	<u>\$ 32,219</u>	<u>\$ 63,244</u>

  

(Dollars In Thousands)	Three Months Ended March 31, 2020					Totals
	Non-QM Loans (4)	Rehabilitation Loans (1)(2)	Single-family Rental Loans	Seasoned Performing Loans	Purchased Credit Deteriorated Loans (3)	
Allowance for credit losses at December 31, 2019	\$ 388	\$ 2,331	\$ 62	\$ —	\$ 244	\$ 3,025
Transition adjustment on adoption of ASU 2016-13 (5)	6,904	517	754	19	62,361	70,555
Current provision	26,358	33,213	6,615	230	8,481	74,897
Write-offs	—	(428)	—	—	(219)	(647)
Valuation adjustment on loans held for sale	70,181	—	—	—	—	70,181
Allowance for credit and valuation losses at March 31, 2020	<u>\$ 103,831</u>	<u>\$ 35,633</u>	<u>\$ 7,431</u>	<u>\$ 249</u>	<u>\$ 70,867</u>	<u>\$ 218,011</u>

(1) In connection with purchased Rehabilitation loans, the Company had unfunded commitments of \$54.4 million and \$123.1 million as of March 31, 2021 and 2020, respectively, with an allowance for credit losses of \$795,905 and \$3.5 million at March 31, 2021 and 2020, respectively. Such allowance is included in "Other liabilities" in the Company's consolidated balance sheets (see Note 9).

(2) Includes \$149.2 million and \$110.8 million of loans that were assessed for credit losses based on a collateral dependent methodology as of March 31, 2021 and 2020, respectively.

(3) Includes \$87.7 million and \$74.5 million of loans that were assessed for credit losses based on a collateral dependent methodology as of March 31, 2021 and 2020, respectively.

(4) Includes Non-QM loans held-for-sale with a net carrying value of \$895.3 million at March 31, 2020.

(5) Of the \$70.6 million of reserves recorded on adoption of ASU 2016-13, \$8.3 million was recorded as an adjustment to stockholders' equity and \$62.4 million was recorded as a "gross up" of the amortized cost basis of Purchased Credit Deteriorated Loans.

The Company adopted ASU 2016-13 ("CECL") on January 1, 2020 (see Note 2). The anticipated impact of the COVID-19 pandemic on expected economic conditions, including forecasted unemployment, home price appreciation, and prepayment rates, for the short to medium term resulted in significantly increased estimates of credit losses recorded under CECL for the first quarter of 2020 for residential whole loans held at carrying value. Since the end of the first quarter of 2020, primarily as a result of generally more stable markets and an ongoing economic recovery, the Company has made subsequent revisions to certain macro-economic assumptions, including its estimates related to future rates of unemployment and home price appreciation, and has made adjustments to the quantitative model outputs for relevant qualitative factors. The net impact of these assumption revisions and qualitative adjustments has resulted in a reversal of a portion of the allowance for loan loss since the end of the first quarter of 2020. The qualitative adjustments, which have the effect of increasing expected loss estimates, were determined based on a variety of factors, including differences between the Company's loan portfolio and the loan portfolios represented by data available in regulatory filings of certain banks that are considered to have similar loan portfolios (available proxy data), and differences between current (and expected future) market conditions in comparison to market conditions that occurred in historical periods. Such differences include uncertainty with respect to the ongoing impact of the pandemic, the speed of vaccine deployment and time period for a significant portion of society to be vaccinated, the extent and timing of government stimulus efforts and heightened political uncertainty. The Company's estimates of credit losses reflect the Company's expectation that full recovery to pre-pandemic economic conditions will take an extended period, resulting in increased delinquencies and defaults during this period compared to historical periods. Estimates of credit losses

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under CECL are highly sensitive to changes in assumptions and current economic conditions have increased the difficulty of accurately forecasting future conditions.

The amortized cost basis of Purchased Performing Loans on nonaccrual status as of March 31, 2021 and December 31, 2020 was \$363.3 million and \$373.3 million, respectively. The amortized cost basis of Purchased Credit Deteriorated Loans on nonaccrual status as of March 31, 2021 and December 31, 2020 was \$146.4 million and \$151.4 million, respectively. No interest income was recognized from loans on nonaccrual status during the three months ended March 31, 2021 and 2020. At March 31, 2021 and December 31, 2020, there were approximately \$132.3 million and \$130.7 million of loans on nonaccrual status that did not have an associated allowance for credit losses because they were determined to be collateral dependent and the estimated fair value of the related collateral exceeded the carrying value of each loan, respectively.

In periods prior to the adoption of CECL, an allowance for loan losses was recorded when, based on current information and events, it was probable that the Company would be unable to collect all amounts due under the existing contractual terms of the loan agreement. Any required loan loss allowance would reduce the carrying value of the loan with a corresponding charge to earnings. Significant judgments were required in determining any allowance for loan loss, including assumptions regarding the loan cash flows expected to be collected, the value of the underlying collateral and the ability of the Company to collect on any other forms of security, such as a personal guaranty provided either by the borrower or an affiliate of the borrower.

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The following table presents certain additional credit-related information regarding our residential whole loans:

(Dollars In Thousands)	Amortized Cost Basis by Origination Year and LTV Bands						
	2021	2020	2019	2018	2017	Prior	Total
<b>Non-QM loans</b>							
LTV <= 80% (I)	\$ 86,788	\$ 419,564	\$ 1,012,210	\$ 560,489	\$ 62,613	\$ 5,340	\$ 2,147,004
LTV > 80% (I)	4,271	43,575	24,620	19,224	4,599	151	96,440
Total Non-QM loans	\$ 91,059	\$ 463,139	\$ 1,036,830	\$ 579,713	\$ 67,212	\$ 5,491	\$ 2,243,444
Three Months Ended March 31, 2021 Gross write-offs	\$ —	—	\$ —	—	\$ —	\$ —	\$ —
Three Months Ended March 31, 2021 Recoveries	—	—	—	—	—	—	—
Three Months Ended March 31, 2021 Net write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Rehabilitation loans</b>							
LTV <= 80% (I)	\$ 12,867	\$ 43,504	\$ 341,513	\$ 58,888	\$ 4,071	\$ —	\$ 460,843
LTV > 80% (I)	—	—	1,842	—	1,700	—	3,542
Total Rehabilitation loans	\$ 12,867	\$ 43,504	\$ 343,355	\$ 58,888	\$ 5,771	\$ —	\$ 464,385
Three Months Ended March 31, 2021 Gross write-offs	\$ —	\$ —	\$ 991	\$ 12	\$ —	\$ —	\$ 1,003
Three Months Ended March 31, 2021 Recoveries	—	—	—	—	—	—	—
Three Months Ended March 31, 2021 Net write-offs	\$ —	\$ —	\$ 991	\$ 12	\$ —	\$ —	\$ 1,003
<b>Single family rental loans</b>							
LTV <= 80% (I)	\$ 15,765	\$ 39,564	\$ 264,032	\$ 112,995	\$ 12,881	\$ —	\$ 445,237
LTV > 80% (I)	—	514	5,953	87	—	—	6,554
Total Single family rental loans	\$ 15,765	\$ 40,078	\$ 269,985	\$ 113,082	\$ 12,881	\$ —	\$ 451,791
Three Months Ended March 31, 2021 Gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Three Months Ended March 31, 2021 Recoveries	—	—	—	—	—	—	—
Three Months Ended March 31, 2021 Net write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Seasoned performing loans</b>							
LTV <= 80% (I)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 122,389	\$ 122,389
LTV > 80% (I)	—	—	—	—	—	5,680	5,680
Total Seasoned performing loans	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 128,069	\$ 128,069
Three Months Ended March 31, 2021 Gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Three Months Ended March 31, 2021 Recoveries	—	—	—	—	—	—	—
Three Months Ended March 31, 2021 Net write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Purchased credit deteriorated loans</b>							
LTV <= 80% (I)	\$ —	\$ —	\$ —	\$ —	\$ 627	\$ 423,587	\$ 424,214
LTV > 80% (I)	—	—	—	—	—	220,397	220,397
Total Purchased credit deteriorated loans	\$ —	\$ —	\$ —	\$ —	\$ 627	\$ 643,984	\$ 644,611
Three Months Ended March 31, 2021 Gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 214	\$ 214
Three Months Ended March 31, 2021 Recoveries	—	—	—	—	—	—	—
Three Months Ended March 31, 2021 Net write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 214	\$ 214
<b>Total LTV &lt;= 80% (I)</b>	<b>\$ 115,420</b>	<b>\$ 502,632</b>	<b>\$ 1,617,755</b>	<b>\$ 732,372</b>	<b>\$ 80,192</b>	<b>\$ 551,316</b>	<b>\$ 3,599,687</b>
<b>Total LTV &gt; 80% (I)</b>	<b>4,271</b>	<b>44,089</b>	<b>32,415</b>	<b>19,311</b>	<b>6,299</b>	<b>226,228</b>	<b>332,613</b>
<b>Total residential whole loans, at carrying value</b>	<b>\$ 119,691</b>	<b>\$ 546,721</b>	<b>\$ 1,650,170</b>	<b>\$ 751,683</b>	<b>\$ 86,491</b>	<b>\$ 777,544</b>	<b>\$ 3,932,300</b>
<b>Total Gross write-offs</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 991</b>	<b>\$ 12</b>	<b>\$ —</b>	<b>\$ 214</b>	<b>\$ 1,217</b>
<b>Total Recoveries</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total Net write-offs</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 991</b>	<b>\$ 12</b>	<b>\$ —</b>	<b>\$ 214</b>	<b>\$ 1,217</b>



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(1) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling \$151.7 million at March 31, 2021, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. The weighted average LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting, is 68% at March 31, 2021. Certain low value loans secured by vacant lots are categorized as LTV > 80%.

The following tables present certain information regarding the LTVs of the Company's Residential whole loans that are 90 days or more delinquent:

(Dollars In Thousands)	March 31, 2021		
	Carrying Value / Fair Value	UPB	LTV (1)
Purchased Credit Deteriorated Loans	\$ 117,509	\$ 142,850	85.9 %
Non-QM loans	\$ 135,260	\$ 132,732	65.7 %
Rehabilitation loans	\$ 136,991	\$ 136,991	65.7 %
Single-family rental loans	\$ 24,091	\$ 24,052	73.4 %
Seasoned performing loans	\$ 8,721	\$ 9,449	50.7 %
Residential whole loans, at fair value	\$ 555,171	\$ 584,025	82.6 %

(Dollars In Thousands)	December 31, 2020		
	Carrying Value / Fair Value	UPB	LTV (1)
Purchased Credit Deteriorated Loans	\$ 119,621	\$ 145,028	86.7 %
Non-QM loans	\$ 148,387	\$ 144,681	65.9 %
Rehabilitation loans	\$ 136,347	\$ 136,347	65.8 %
Single-family rental loans	\$ 20,388	\$ 20,233	72.7 %
Seasoned performing loans	\$ 8,031	\$ 8,823	55.1 %
Residential whole loans, at fair value	\$ 571,729	\$ 625,621	86.8 %

(1) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots, for which the LTV ratio is not meaningful.

*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 the time of acquisition. Subsequent changes in fair value are reported in current period earnings and presented in Net gain on residential whole loans measured at fair value through earnings on the Company's consolidated statements of operations.

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The following table presents information regarding the Company's residential whole loans held at fair value at March 31, 2021 and December 31, 2020:

(Dollars in Thousands)	March 31, 2021 (1)		December 31, 2020	
<b>Less than 60 Days Past Due:</b>				
Outstanding principal balance	\$	590,813	\$	602,292
Aggregate fair value	\$	596,805	\$	595,521
Weighted Average LTV Ratio (1)		69.46 %		72.57 %
Number of loans		2,975		3,033
<b>60 Days to 89 Days Past Due:</b>				
Outstanding principal balance	\$	58,625	\$	54,180
Aggregate fair value	\$	56,021	\$	49,652
Weighted Average LTV Ratio (1)		70.56 %		82.11 %
Number of loans		293		263
<b>90 Days or More Past Due:</b>				
Outstanding principal balance	\$	584,025	\$	625,621
Aggregate fair value	\$	555,171	\$	571,729
Weighted Average LTV Ratio (1)		82.56 %		86.78 %
Number of loans		2,170		2,326
Total Residential whole loans, at fair value	\$	<u>1,207,997</u>	\$	<u>1,216,902</u>

(1) Excluded from this table are approximately \$112.2 million of Residential whole loans, at fair value for which the closing of the purchase transaction had not occurred as of March 31, 2021.

(2) LTV represents the ratio of the total unpaid principal balance of the loan, to the estimated value of the collateral securing the related loan. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots, for which the LTV ratio is not meaningful.

The following table presents the components of Net gain/(loss) on residential whole loans measured at fair value through earnings for the three months ended March 31, 2021 and 2020:

(In Thousands)	Three Months Ended	
	2021	2020
Coupon payments, realized gains, and other income received (1)	\$ 16,676	\$ 19,036
Net unrealized gains/(losses)	32,088	(74,556)
Net gain on transfers to REO	1,045	2,760
Total	<u>\$ 49,809</u>	<u>\$ (52,760)</u>

(1) Primarily includes gains on liquidation of non-performing loans, including the recovery of delinquent interest payments, recurring coupon interest payments received on mortgage loans that are contractually current, and cash payments received from private mortgage insurance on liquidated loans.

#### 4. Securities, at Fair Value

##### **MSR-Related Assets**

###### *Term Notes Backed by MSR-Related Collateral*

At March 31, 2021 and December 31, 2020, the Company had \$244.7 million and \$239.0 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.

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At March 31, 2021, these term notes had an amortized cost of \$185.6 million, gross unrealized gains of approximately \$59.1 million, a weighted average yield of 12.1% and a weighted average term to maturity of 8.2 years. At December 31, 2020, the term notes had an amortized cost of \$184.9 million, gross unrealized gains of approximately \$54.0 million, a weighted average yield of 12.30% and a weighted average term to maturity of 8.7 years. During the three months ended March 31, 2020, the Company sold certain term notes for \$136.8 million, realizing gains of \$24.6 million, respectively. During the three months ended March 31, 2020, the Company recognized an impairment loss related to its term notes of \$280.8 million based on its intent to sell, or the likelihood it will be required to sell, such notes.

***CRT Securities***

CRT securities are debt obligations issued by or sponsored by Fannie Mae and Freddie Mac. The coupon payments on CRT securities are paid by the issuer and the principal payments received are dependent on the performance of loans in either a reference pool or an actual pool of loans. As an investor in a CRT security, the Company may incur a principal loss if the performance of the actual or reference pool loans results in either an actual or calculated loss that exceeds the credit enhancement of the security owned by the Company. The Company assesses the credit risk associated with its investments in CRT securities by assessing the current and expected future performance of the associated loan pool. The Company pledges a portion of its CRT securities as collateral against its borrowings under repurchase agreements (see Note 7).

***Agency and Non-Agency MBS***

MBS investments held during the year December 31, 2020 or in prior periods included 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”), which have interest rates that reset annually or more frequently (collectively, “ARM-MBS”); and (iii) 15 and 30 year fixed-rate mortgages for Agency MBS and, for Non-Agency MBS, 30-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 generally structured with a contractual coupon step-up feature where the coupon increases from 300 - 400 basis points at 36 - 48 months from issuance or sooner. The Company pledges a significant portion of its MBS as collateral against its borrowings under repurchase agreements (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. The Company sold its remaining holdings of Agency MBS during the quarter ended June 30, 2020.

***Non-Agency MBS:*** 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. During 2020, the Company had sold all of its holdings of Legacy Non-Agency MBS and substantially reduced its holdings of other Non-Agency MBS.

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The following tables present certain information about the Company's residential mortgage securities at March 31, 2021 and December 31, 2020:

**March 31, 2021**

(In Thousands)	Principal/ Current Face	Purchase Premiums	Accretable Purchase Discounts	Discount Designated as Credit Reserve (1)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)	Fair Value
Total residential mortgage securities (2)(3)(4) (5)	\$ 105,487	\$ 3,764	\$ (69)	\$ (20,768)	\$ 88,414	\$ 17,207	\$ (206)	\$ 17,001	\$ 105,415

**December 31, 2020**

(In Thousands)	Principal/ Current Face	Purchase Premiums	Accretable Purchase Discounts	Discount Designated as Credit Reserve (1)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss)	Fair Value
Total residential mortgage securities (2)(3)(4) (5)	\$ 161,878	\$ 3,022	\$ (8,206)	\$ (21,437)	\$ 135,257	\$ 26,926	\$ (1,183)	\$ 25,743	\$ 161,000

(1) Discount designated as Credit Reserve is generally not expected to be accreted into interest income.

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

(3) Includes RPL/NPL MBS, which at March 31, 2021 had an \$1.6 million Principal/Current face, \$1.6 million amortized cost and \$1.6 million fair value. At December 31, 2020, RPL/NPL MBS had a \$55.0 million Principal/Current face, \$46.9 million amortized cost and \$53.9 million fair value.

(4) At March 31, 2021 and December 31, 2020, the Company expected to recover approximately 100% and 99% of the then-current face amount of Non-Agency MBS, respectively.

(5) Amounts disclosed at March 31, 2021 includes CRT securities with a fair value of \$66.2 million for which the fair value option has been elected. Such securities had \$535,000 gross unrealized gains and gross unrealized losses of approximately \$206,000 at March 31, 2021. Amounts disclosed at December 31, 2020 includes CRT securities with a fair value of \$66.2 million for which the fair value option has been elected. Such securities had gross unrealized gains of approximately \$551,000 and gross unrealized losses of approximately \$322,000 at December 31, 2020.

*Sales of Residential Mortgage Securities*

The following table presents information about the Company's sales of its residential mortgage securities for the three months ended March 31, 2021 and 2020. The Company has no continuing involvement with any of the sold securities.

(In Thousands)	Three Months Ended March 31, 2021		Three Months Ended March 31, 2020	
	Sales Proceeds	Gains/(Losses)	Sales Proceeds	Gains/(Losses)
Agency MBS	\$ —	\$ —	\$ 965,132	\$ (22,854)
Non-Agency MBS	—	—	264,385	(43,124)
CRT Securities	—	—	35,645	(2,017)
Total	\$ —	\$ —	\$ 1,265,162	\$ (67,995)

*Unrealized Losses on Residential Mortgage Securities*

There were no gross unrealized losses on the Company's AFS securities at March 31, 2021.

The Company did not recognize an allowance for credit losses (or other than temporary impairment in prior year periods) through earnings related to its MBS for the three months ended March 31, 2021. During the three months ended March 31, 2020, the Company recognized an aggregate impairment loss related to its MBS of \$63.5 million based on its intent to sell, or the likelihood it will be required to sell, certain securities at such time.

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The following table presents a roll-forward of the allowance for credit losses on the Company's Residential mortgage securities and MSR-related assets:

(Dollars In Thousands)	Three Months Ended March 31,	
	2021	2020
Allowance for credit losses at beginning of period	\$ —	\$ —
Current provision:	—	—
Securities with no prior loss allowance	—	344,269
Securities with a prior loss allowance	—	—
Write-offs, including allowance related to securities the Company intended to sell	—	(344,269)
Allowance for credit losses at end of period	\$ —	\$ —

***Impact of AFS Securities on AOCI***

The following table presents the impact of the Company's AFS securities on its AOCI for the three months ended March 31, 2021 and 2020:

(In Thousands)	Three Months Ended March 31,	
	2021	2020
AOCI from AFS securities:		
Unrealized gain on AFS securities at beginning of period	\$ 79,607	\$ 392,722
Unrealized (losses)/gains on securities available-for-sale	(3,855)	124,410
Reclassification adjustment for MBS sales included in net income	—	(23,953)
Reclassification adjustment for impairment included in net income	—	(344,269)
Change in AOCI from AFS securities	(3,855)	(243,812)
Balance at end of period	\$ 75,752	\$ 148,910

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***Interest Income on Securities, at Fair Value***

The following table presents the components of interest income on the Company's Securities, at fair value for the three months ended March 31, 2021 and 2020:

(In Thousands)	Three Months Ended March 31,	
	2021	2020
<b>Agency MBS</b>		
Coupon interest	\$ —	\$ 13,636
Effective yield adjustment (1)	—	(4,775)
Interest income	\$ —	\$ 8,861
<b>Legacy Non-Agency MBS</b>		
Coupon interest	\$ 14	\$ 17,282
Effective yield adjustment (2)(3)	670	9,406
Interest income	\$ 684	\$ 26,688
<b>RPL/NPL MBS</b>		
Coupon interest	\$ 352	\$ 5,583
Effective yield adjustment (1)(4)	8,135	280
Interest income	\$ 8,487	\$ 5,863
<b>CRT securities</b>		
Coupon interest	\$ 921	\$ 3,485
Effective yield adjustment (2)	744	(523)
Interest income	\$ 1,665	\$ 2,962
<b>MSR-related assets</b>		
Coupon interest	\$ 2,405	\$ 14,207
Effective yield adjustment (1)(2)	3,218	—
Interest income	\$ 5,623	\$ 14,207

(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 less the current coupon yield. The net yield may be based on management's estimates of the amount and timing of future cash flows or in the instrument's contractual cash flows, depending on the relevant accounting standards.

(3) Includes accretion income recognized due to the impact of redemptions of certain securities that had been previously purchased at a discount of approximately \$670,000 during the three months ended March 31, 2021.

(4) Includes accretion income recognized due to the impact of redemptions of certain securities that had been previously purchased at a discount of approximately \$8.1 million and \$277,000 during the three months ended March 31, 2021 and 2020, respectively.

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**5. Other Assets**

The following table presents the components of the Company's Other assets at March 31, 2021 and December 31, 2020:

(In Thousands)	March 31, 2021	December 31, 2020
REO (1)	\$ 220,393	\$ 249,699
Capital contributions made to loan origination partners	81,374	47,148
Interest receivable	35,989	38,850
Other MBS and loan related receivables	23,403	16,682
Other	31,567	33,002
Total Other Assets	<u>\$ 392,726</u>	<u>\$ 385,381</u>

(1) Includes \$61.1 million and \$61.8 million of REO that is held-for-investment at March 31, 2021 and December 31, 2020, respectively.

**(a) Real Estate Owned**

At March 31, 2021, the Company had 835 REO properties with an aggregate carrying value of \$220.4 million. At December 31, 2020, the Company had 946 REO properties with an aggregate carrying value of \$249.7 million.

At March 31, 2021, \$218.0 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 \$156.6 million of residential whole loans held at carrying value and \$436.9 million of residential whole loans held at fair value at March 31, 2021.

The following table presents the activity in the Company's REO for the three months ended March 31, 2021 and 2020:

(In Thousands)	Three Months Ended March 31,	
	2021	2020
Balance at beginning of period	\$ 249,699	\$ 411,659
Adjustments to record at lower of cost or fair value	(874)	(4,750)
Transfer from residential whole loans (1)	20,068	50,693
Purchases and capital improvements, net	217	5,809
Disposals (2)	(48,386)	(51,735)
Depreciation	(331)	(203)
Balance at end of period	<u>\$ 220,393</u>	<u>\$ 411,473</u>
Number of properties	835	1,622

(1) Includes net gain recorded on transfer of approximately \$1.1 million and \$3.0 million for the three months ended March 31, 2021 and 2020, respectively.

(2) During the three months ended March 31, 2021 and 2020, the Company sold 177 and 249 REO properties for consideration of \$50.6 million and \$54.8 million, realizing net gains of approximately \$2.2 million and \$3.1 million, respectively. These amounts are included in Other Income, net on the Company's consolidated statements of operations.

**(b) Capital Contributions Made to Loan Origination Partners**

The Company has made investments in several loan originators as part of its strategy to be a reliable source of capital to select partners from whom it sources residential mortgage loans through both flow arrangements and bulk purchases. To date, such contributions of capital include the following investments (based on their carrying value prior to any impairments): \$49.2 million of common equity (including partnership interests) and \$100.8 million of preferred equity. In addition, for certain partners, options or warrants may have also been acquired that provide the Company the ability to increase the level of its

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investment if certain conditions are met. At the end of each reporting period, or earlier if circumstances warrant, the Company evaluates whether the nature of its interests and other involvement with the investee entity requires the Company to apply equity method accounting or consolidate the results of the investee entity with the Company's financial results. To date, the nature of the Company's interests and/or involvement with investee companies has not resulted in consolidation. Further, to the extent that the nature of the Company's interests has resulted in the need for the Company to apply equity method accounting, the impact of such accounting on the Company's results for periods subsequent to that in which the Company was determined to have significant influence over the investee company was not material for any period. As the interests acquired to date by the Company generally do not have a readily determinable fair value, the Company accounts for its non-equity method interests (including any acquired options and warrants) in loan originators initially at cost. The carrying value of these investments will be adjusted if it is determined that an impairment has occurred or if there has been a subsequent observable transaction in either the investee company's equity securities or a similar security that provides evidence to support an adjustment to the carrying value. Following an evaluation of the anticipated impact of COVID-19 on economic conditions for the short to medium term, the Company recorded impairment charges of \$58.1 million on investments in certain loan origination partners during the three months ended March 31, 2020, which was included in "Impairment and other losses on securities available-for-sale and other assets" on the consolidated statements of operations. The Company did not record any impairment charges to earnings on investments in certain loan origination partners during the three months ended March 31, 2021. At March 31, 2021, approximately \$685.8 million of the Company's Residential whole loans, at carrying value were serviced by entities in which the Company has an investment.



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*(c) Derivative Instruments*

The Company's derivative instruments have generally been comprised of Swaps, the majority of which were designated as cash flow hedges against the interest rate risk associated with certain borrowings. In addition, in connection with managing risks associated with purchases of longer duration Agency MBS, the Company has also entered into Swaps that are not designated as hedges for accounting purposes.

In response to the turmoil in the financial markets resulting from COVID-19 experienced during the three months ended March 31, 2020, and given that management no longer considered these transactions to be effective hedges in the then prevailing interest rate environment, the Company unwound all of its approximately \$4.1 billion of Swap hedging transactions late in the first quarter of 2020 in order to recover previously posted margin.

The following table presents the net impact of the Company's derivative hedging instruments on its net interest expense and the weighted average interest rate paid and received for such Swaps for the three months ended March 31, 2021 and 2020:

(Dollars in Thousands)	Three Months Ended March 31,	
	2021	2020
Interest (expense)/income attributable to Swaps	\$ —	\$ (3,359)
Weighted average Swap rate paid	— %	2.09 %
Weighted average Swap rate received	— %	1.65 %

During the three months ended March 31, 2020, the Company recorded net losses on Swaps not designated in hedging relationships of approximately \$4.3 million, which included \$9.4 million of losses realized on the unwind of certain Swaps. These amounts are included in Other income, net on the Company's consolidated statements of operations.

*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 months ended March 31, 2021 and 2020:

(In Thousands)	Three Months Ended March 31,	
	2021	2020
AOCI from derivative hedging instruments:		
Balance at beginning of period	\$ —	\$ (22,675)
Net loss on Swaps	—	(50,127)
Reclassification adjustment for losses/gains related to hedging instruments included in net income	—	1,594
Balance at end of period	\$ —	\$ (71,208)

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**6. Financing Agreements**

The following tables present the components of the Company's Financing agreements at March 31, 2021 and December 31, 2020:

(In Thousands)	March 31, 2021		
	Unpaid Principal Balance	Amortized Cost Balance	Fair Value/Carrying Value(I)
<b>Financing agreements, at fair value</b>			
Agreements with non-mark-to-market collateral provisions	\$ 1,039,205	\$ 1,039,205	\$ 1,041,283
Agreements with mark-to-market collateral provisions	1,180,287	1,180,287	1,180,287
Securitized debt	748,717	748,708	753,008
Total Financing agreements, at fair value	<u>\$ 2,968,209</u>	<u>\$ 2,968,200</u>	<u>\$ 2,974,578</u>
<b>Other financing agreements</b>			
Securitized debt	\$ 800,137		\$ 795,912
Convertible senior notes	230,000		225,492
Total Financing agreements at carrying value	<u>\$ 1,030,137</u>		<u>\$ 1,021,404</u>
Total Financing agreements	<u>\$ 3,998,346</u>		<u>\$ 3,995,982</u>

(In Thousands)	December 31, 2020		
	Unpaid Principal Balance	Amortized Cost Balance	Fair Value/Carrying Value(I)
<b>Financing agreements, at fair value</b>			
Agreements with non-mark-to-market collateral provisions	\$ 1,156,899	\$ 1,156,899	\$ 1,159,213
Agreements with mark-to-market collateral provisions	1,338,077	1,338,077	1,338,077
Securitized debt	866,203	857,553	869,482
Total Financing agreements, at fair value	<u>\$ 3,361,179</u>	<u>\$ 3,352,529</u>	<u>\$ 3,366,772</u>
<b>Other financing agreements</b>			
Securitized debt	\$ 648,300		\$ 645,027
Convertible senior notes	230,000		225,177
Senior notes	100,000		100,000
Total Financing agreements at carrying value	<u>\$ 978,300</u>		<u>\$ 970,204</u>
Total Financing agreements	<u>\$ 4,339,479</u>		<u>\$ 4,336,976</u>

(1) Financing agreements at fair value are reported at estimated fair value each period as a result of the Company's fair value option election. Other financing arrangements are reported at their carrying value (amortized cost basis) as the fair value option was not elected on these liabilities. Consequently, Total Financing agreements as presented reflects a summation of balances reported at fair value and carrying value.

**(a) Financing Agreements, at Fair Value**

During the second quarter of 2020, the Company entered into a \$500 million senior secured credit agreement. In addition, in conjunction with its exit from forbearance arrangements, the Company entered into several new asset backed financing arrangements and renegotiated financing arrangements for certain assets with existing lenders, which together resulted in the Company essentially refinancing the majority of its investment portfolio. The Company elected the fair value option on these financing arrangements, primarily to simplify the accounting associated with costs incurred to establish the new facilities or renegotiate existing facilities.

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The Company considers the most relevant feature that distinguishes between the various asset backed financing arrangements is how the financing arrangement is collateralized, including the ability of the lender to make margin calls on the Company based on changes in value of the underlying collateral securing the financing. Accordingly, further details are provided below regarding assets that are financed with agreements that have non-mark-to-market collateral provisions and assets that are financed with agreements that have mark-to-market collateral provisions.

*Agreements with non-mark-to-market collateral provisions*

The Company and certain of its subsidiaries entered into a non-mark-to-market term loan facility with certain lenders with an initial borrowing capacity of \$1.65 billion. The Company's borrowing subsidiaries have pledged, as collateral security for the facility, certain of their residential whole loans (excluding Rehabilitation loans), as well as the equity in subsidiaries that own the loans. The facility has an initial term of two years, which may be extended for up to an additional three years, subject to certain conditions, including the payment of an extension fee and provided that no events of default have occurred. For the initial two-year term, the financing cost for the facility will be calculated at a spread over the lender's financing cost, which, depending on the lender, is expected to be based either on three-month London Interbank Offered Rate ("LIBOR"), or an index that it expected over time to be closely correlated to changes in three-month LIBOR. At March 31, 2021, the amount financed under this facility was approximately \$837.8 million.

In addition, the Company also entered into non-mark-to-market financing facilities on Rehabilitation loans. Under these facilities, Rehabilitation loans, as well as the equity in subsidiaries that own the loans, are pledged as collateral. The facilities have a two-year term and the financing cost is calculated at a spread over three-month LIBOR. At March 31, 2021, the amount financed under these facilities was approximately \$203.5 million.

The following table presents information with respect to the Company's financing agreements with non-mark-to-market collateral provisions and associated assets pledged as collateral at March 31, 2021 and December 31, 2020:

(Dollars in Thousands)	March 31, 2021	December 31, 2020
Non-mark-to-market financing secured by residential whole loans at carrying value	\$ 794,634	\$ 906,466
Fair value of residential whole loans at carrying value pledged as collateral under financing agreements	\$ 1,313,629	\$ 1,500,100
Weighted average haircut on residential whole loans at carrying value	38.62 %	38.36 %
Non-mark-to-market financing secured by residential whole loans at fair value	\$ 239,654	\$ 249,659
Fair value of residential whole loans at fair value pledged as collateral under financing agreements	\$ 427,234	\$ 430,183
Weighted average haircut on residential whole loans at fair value	43.89 %	42.69 %
Non-mark-to-market financing secured by real estate owned	\$ 6,995	\$ 3,088
Fair value of real estate owned pledged as collateral under financing agreements	\$ 16,183	\$ 7,441
Weighted average haircut on real estate owned	56.41 %	59.65 %

*Agreements with mark-to-market collateral provisions*

In addition to entering into the financing arrangements discussed above, the Company also entered into a reinstatement agreement with certain lending counterparties that facilitated its exit from the forbearance arrangements that the Company had previously entered into. In connection with the reinstatement agreement, terms of its prior financing arrangements on certain residential whole loans, residential mortgage securities, and MSR-related assets were renegotiated and those arrangements were reinstated on a go-forward basis. These financing arrangements continue to contain mark-to-market provisions that permit the lending counterparties to make margin calls on the Company should the value of the pledged collateral decline. The Company is also permitted to recover previously posted margin payments, should values of the pledged collateral subsequently increase. These facilities generally have a maturity ranging from one to three months and can be renewed at the discretion of the lending counterparty at financing costs reflecting prevailing market pricing. At March 31, 2021, the amount financed under these agreements was approximately \$1.2 billion.

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The following table presents information with respect to the Company's financing agreements with mark-to-market collateral provisions and associated assets pledged as collateral at March 31, 2021 and December 31, 2020:

(Dollars in Thousands)	March 31, 2021	December 31, 2020
Mark-to-market financing agreements secured by residential whole loans at carrying value	\$ 732,442	\$ 839,594
Fair value of residential whole loans at carrying value pledged as collateral under financing agreements (1)	\$ 1,168,394	\$ 1,297,243
Weighted average haircut on residential whole loans at carrying value (2)	34.39 %	32.57 %
Mark-to-market financing agreements secured by residential whole loans at fair value	\$ 236,321	\$ 273,959
Residential whole loans at fair value pledged as collateral under financing agreements (1)	\$ 468,279	\$ 501,570
Weighted average haircut on residential whole loans at fair value (2)	48.71 %	39.02 %
Mark-to-market financing agreements secured by securities at fair value	\$ 200,746	\$ 213,915
Securities at fair value pledged as collateral under financing agreements	\$ 350,115	\$ 399,999
Weighted average haircut on securities at fair value (2)	40.06 %	41.16 %
Mark-to-market financing agreements secured by real estate owned	\$ 10,778	\$ 10,609
Fair value of real estate owned pledged as collateral under financing agreements	\$ 37,108	\$ 22,525
Weighted average haircut on real estate owned (2)	51.76 %	55.25 %

(1) At March 31, 2021 and December 31, 2020, includes Non-Agency MBS with an aggregate fair value of \$36.3 million and \$141.9 million, respectively, obtained in connection with the Company's loan securitization transactions that are eliminated in consolidation.

(2) Haircut represents the percentage amount by which the collateral value is contractually required to exceed the loan amount.

In addition, the Company had cash pledged as collateral in connection with its financing agreements of \$5.2 million and \$7.2 million at March 31, 2021 and December 31, 2020, respectively.

The following table presents repricing information (excluding the impact of associated derivative hedging instruments, if any) about the Company's financing agreements that have non-mark-to-market collateral provisions as well as those that have mark-to-market collateral provisions, at March 31, 2021 and December 31, 2020:

Time Until Interest Rate Reset (Dollars in Thousands)	March 31, 2021		December 31, 2020	
	Amortized Cost Basis	Weighted Average Interest Rate	Amortized Cost Basis	Weighted Average Interest Rate
Within 30 days	\$ 2,083,420	3.08 %	\$ 2,494,976	3.16 %
Over 30 days to 3 months	136,072	2.14	—	—
Over 3 months to 12 months	—	—	—	—
Over 12 months	—	—	—	—
Total financing agreements	\$ 2,219,492	3.02 %	\$ 2,494,976	3.16 %

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The Company had financing agreements, including repurchase agreements and other forms of secured financing with seven counterparties at both March 31, 2021 and December 31, 2020, respectively. The following table presents information with respect to each counterparty under financing agreements for which the Company had greater than 5% of stockholders' equity at risk in the aggregate at March 31, 2021:

March 31, 2021				
Counterparty (Dollars in Thousands)	Counterparty Rating (1)	Amount at Risk (2)	Weighted Average Months to Repricing for Repurchase Agreements	Percent of Stockholders' Equity
Barclays Bank	BBB/Aa3/A	\$ 489,085	1	19.2 %
Wells Fargo	A+/Aa2/AA-	398,559	1	15.7
Credit Suisse	BBB+/Baa1/A-	341,065	1	13.4
Goldman Sachs (3)	BBB+/A2/A	149,368	1	5.9

(1) As rated at March 31, 2021 by S&P, Moody's and Fitch, Inc., respectively. The counterparty rating presented is the lowest published rating for these entities.

(2) The amount at risk reflects the difference between (a) the amount loaned to the Company through financing 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 \$5.2 million at risk with Goldman Sachs and \$144.2 million at risk with Goldman Sachs Bank USA.

**Senior Secured Term Loan Facility**

On June 26, 2020, the Company entered into a \$500 million senior secured term loan facility (the "Term Loan Facility") with certain funds, accounts and/or clients managed by affiliates of Apollo Global Management, Inc. and affiliates of Athene Holding Ltd. The outstanding balance of the Term Loan Facility was repaid and the Term Loan Facility was terminated prior to December 31, 2020.

**(b) Other Financing Agreements**

These arrangements were either entered into prior to the Company experiencing financial difficulties related to COVID-19, or, in the case of the Company's recent securitizations, after the Company's exit from forbearance, and were not subject to the forbearance arrangements that were entered into by the Company or any negotiations related to the Company's exit from those arrangements.

Additional information regarding the Company's Other financing arrangements as of March 31, 2021, is included below:

**Securitized Debt**

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. The weighted average fixed rate on the securitized debt was 1.71% at March 31, 2021 (see Notes 10 and 15 for further discussion).

**Convertible Senior Notes**

On June 3, 2019, the Company issued \$230.0 million in aggregate principal amount of its Convertible Senior Notes in an underwritten public offering, including an additional \$30.0 million issued pursuant to the exercise of the underwriters' option to purchase additional Convertible Senior Notes. The total net proceeds the Company received from the offering were approximately \$223.3 million, after deducting offering expenses and the underwriting discount. The Convertible Senior Notes bear interest at a fixed rate of 6.25% per year, paid semiannually on June 15 and December 15 of each year commencing December 15, 2019 and will mature on June 15, 2024, unless earlier converted, redeemed or repurchased in accordance with their terms. The Convertible Senior Notes are convertible at the option of the holders at any time until the close of business on the business day immediately preceding the maturity date into shares of the Company's common stock based on an initial

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conversion rate of 125.7387 shares of the Company's common stock for each \$1,000 principal amount of the Convertible Senior Notes, which is equivalent to an initial conversion price of approximately \$7.95 per share of common stock. The Convertible Senior Notes have an effective interest rate, including the impact of amortization to interest expense of debt issuance costs, of 6.94%. The Company does not have the right to redeem the Convertible Senior Notes prior to maturity, except to the extent necessary to preserve its status as a REIT, in which case the Company may redeem the Convertible Senior Notes, in whole or in part, at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest.

The Convertible Senior Notes are the Company's senior unsecured obligations and are effectively junior to all of the Company's secured indebtedness, which includes the Company's repurchase agreements and other financing arrangements, to the extent of the value of the collateral securing such indebtedness and equal in right of payment to the Company's existing and future senior unsecured obligations, including the Senior Notes.

#### ***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. On January 6, 2021, the Company redeemed all of its outstanding Senior Notes. The Senior Notes bore interest at a fixed rate of 8.00% per year, paid quarterly in arrears on January 15, April 15, July 15 and October 15. The Senior Notes had an effective interest rate, including the impact of amortization to interest expense of debt issuance costs, of 8.31%.

#### **7. Collateral Positions**

The Company pledges securities or cash as collateral to its counterparties in relation to certain of its financing arrangements. 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 financing arrangements 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.

The Company's assets pledged as collateral are described in Notes 2(e) - Restricted Cash, 5(c) - Derivative Instruments and 6 - Financing Agreements. The total fair value of assets pledged as collateral with respect to the Company's borrowings under its financing arrangements and/or derivative hedging instruments was \$3.8 billion and \$4.2 billion at March 31, 2021 and December 31, 2020, respectively. An aggregate of \$20.9 million and \$24.6 million of accrued interest on those assets had also been pledged as of March 31, 2021 and December 31, 2020, respectively.

#### **8. Offsetting Assets and Liabilities**

Certain of the Company's financing arrangements 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. In the Company's consolidated balance sheets, all balances associated with repurchase agreements are presented on a gross basis.

The fair value of financial instruments pledged against the Company's financing arrangements was \$3.8 billion and \$4.2 billion at March 31, 2021 and December 31, 2020, respectively. There were no financial instruments pledged against the Company's Swaps at March 31, 2021 and December 31, 2020, respectively. In addition, cash that has been pledged as collateral against financing arrangements and Swaps (if any) is reported as Restricted cash on the Company's consolidated balance sheets (see Notes 2(e), 5(c) and 6).

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**9. Other Liabilities**

The following table presents the components of the Company's Other liabilities at March 31, 2021 and December 31, 2020:

(In Thousands)	March 31, 2021	December 31, 2020
Payable for unsettled residential whole loans purchases	\$ 112,202	\$ —
Dividends and dividend equivalents payable	33,640	34,016
Accrued interest payable	10,948	11,116
Accrued expenses and other	22,922	25,390
<b>Total Other Liabilities</b>	<b>\$ 179,712</b>	<b>\$ 70,522</b>

**10. Commitments and Contingencies***(a) Lease Commitments*

The Company's primary lease commitments relate to its corporate headquarters. In March 2021, the Company relocated its corporate headquarters, terminating its prior lease on April 30, 2021. For the three months ended March 31, 2021, the Company recorded aggregate lease expense of approximately \$767,000 in connection with this lease.

The term specified in the new lease is approximately fifteen years with an option to renew for an additional five years. The Company's current estimate of annual lease expense under the new lease, excluding real estate tax and operating expense escalation charges (which at this point are unknown) and incentives, is approximately \$4.6 million.

*(b) Representations and Warranties in Connection with Loan Securitization Transactions*

In connection with the loan securitization transactions entered into by the Company, the Company has the obligation under certain circumstances to repurchase assets previously transferred to securitization vehicles upon breach of certain representations and warranties. As of March 31, 2021, the Company had no reserve established for repurchases of loans and was not aware of any material unsettled repurchase claims that would require the establishment of such a reserve (see Note 15).

*(c) Rehabilitation Loan Commitments*

At March 31, 2021, the Company had unfunded commitments of \$54.4 million in connection with its purchased Rehabilitation loans (see Note 3).

*(d) Residential Whole Loan Purchase Commitments*

At March 31, 2021, the Company has agreed, subject to the completion of due diligence and customary closing conditions, to purchase residential whole loans held at fair value with an aggregate estimated purchase price of \$112.2 million, with a corresponding liability recorded in Other Liabilities and included in Payable for unsettled residential whole loan purchases.

**11. Stockholders' Equity***(a) Preferred Stock**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

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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.

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, 2021 through March 31, 2021:

Year	Declaration Date	Record Date	Payment Date	Dividend Per Share
<b>2021</b>	February 19, 2021	March 5, 2021	March 31, 2021	\$0.46875

*Issuance of 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock ("Series C Preferred Stock")*

On February 28, 2020, the Company amended its charter through the filing of articles supplementary to reclassify 12,650,000 shares of the Company's authorized but unissued common stock as shares of the Company's Series C Preferred Stock. On March 2, 2020, the Company completed the issuance of 11.0 million shares of its Series C 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 total net proceeds the Company received from the offering were approximately \$266.0 million, after deducting offering expenses and the underwriting discount.

The Company's Series C Preferred Stock is entitled to receive dividends (i) from and including the original issue date to, but excluding, March 31, 2025, at a fixed rate of 6.50% per year on the \$25.00 liquidation preference and (ii) from and including March 31, 2025, at a floating rate equal to three-month LIBOR plus a spread of 5.345% per year of the \$25.00 per share 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 C Preferred Stock are payable quarterly in arrears on or about March 31, June 30, September 30 and December 31 of each year. The Series C Preferred Stock is not redeemable by the Company prior to March 31, 2025, except under circumstances where it is necessary to preserve the Company's qualification as a REIT for U.S. federal income tax purposes and upon the occurrence of certain specified change in control transactions. On or after March 31, 2025, the Company may, at its option, subject to certain procedural requirements, redeem any or all of the shares of the Series C Preferred Stock for cash at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date.

The Series C 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 C Preferred Stock will be entitled to vote to elect two additional directors to the Company's 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 C Preferred Stock cannot be made without the affirmative vote of holders of at least 66 2/3 of the outstanding shares of Series C Preferred Stock.

The following table presents cash dividends declared by the Company on its Series C Preferred Stock from January 1, 2021 through March 31, 2021:

Year	Declaration Date	Record Date	Payment Date	Dividend Per Share
<b>2021</b>	February 19, 2021	March 5, 2021	March 31, 2021	\$0.40625



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**(b) Dividends on Common Stock**

The following table presents cash dividends declared by the Company on its common stock from January 1, 2021 through March 31, 2021:

Year	Declaration Date	Record Date	Payment Date	Dividend Per Share
2021	March 12, 2021	March 31, 2021	April 30, 2021	\$0.075 (1)

(1) At March 31, 2021, we had accrued dividends and dividend equivalents payable of \$33.6 million related to the common stock dividend declared on March 12, 2021.

**(c) Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan (“DRSPP”)**

On October 15, 2019, the Company filed a shelf registration statement on Form S-3 with the SEC under the Securities Act of 1933, as amended (the “Securities Act”), for the purpose of registering additional common stock for sale through its DRSPP. Pursuant to Rule 462(e) under the Securities 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 9.0 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 March 31, 2021, approximately 8.6 million shares of common stock remained available for issuance pursuant to the DRSPP shelf registration statement.

During the three months ended March 31, 2021, the Company issued 105,272 shares of common stock through the DRSPP, raising net proceeds of approximately \$388,173. From the inception of the DRSPP in September 2003 through March 31, 2021, the Company issued 34,719,675 shares pursuant to the DRSPP, raising net proceeds of \$288.0 million.

**(d) At-the-Market Offering Program**

On August 16, 2019 the Company entered into a distribution agreement under the terms of which the Company may offer and sell shares of its common stock having an aggregate gross sales price of up to \$400.0 million (the “ATM Shares”), from time to time, through various sales agents, pursuant to an at-the-market equity offering program (the “ATM Program”). Sales of the ATM Shares, if any, may be made in negotiated transactions or by transactions that are deemed to be “at-the-market” offerings, as defined in Rule 415 under the Securities Act, including sales made directly on the New York Stock Exchange (“NYSE”) or sales made to or through a market maker other than an exchange. The sales agents are entitled to compensation of up to two percent of the gross sales price per share for any shares of common stock sold under the distribution agreement.

During the three months ended March 31, 2021, the Company did not sell any shares of common stock through the ATM Program. At March 31, 2021, approximately \$390.0 million remained outstanding for future offerings under this program.

**(e) Stock Repurchase Program**

On November 2, 2020, the Company’s Board authorized a share repurchase program under which the Company may repurchase up to \$250 million of its common stock through the end of 2022. The Board’s authorization replaces the authorization under the Company’s existing stock repurchase program that was adopted in December 2013, which authorized the Company to repurchase up to 10.0 million shares of common stock and under which approximately 6.6 million remained available for repurchase.

The stock repurchase program does not require the purchase of any minimum number of shares. The timing and extent to which the Company repurchases its shares will depend upon, among other things, market conditions, share price, liquidity, regulatory requirements and other factors, and repurchases may be commenced or suspended at any time without prior notice. Acquisitions under the share repurchase program may be made in the open market, through privately negotiated transactions or block trades or other means, in accordance with applicable securities laws (including, in the Company’s discretion, through the use of one or more plans adopted under Rule 10b-5-1 promulgated under the Exchange Act of 1934, as amended (the “Exchange Act”).

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During the three months ended March 31, 2021, the Company repurchased 5,946,678 shares of its common stock through the stock repurchase program at an average cost of \$4.09 per share and a total cost of approximately \$24.3 million, net of fees and commissions paid to the sales agent of approximately \$59,000. For the period from March 1, 2021 through April 30, 2021, the Company purchased 10,778,896 shares of common stock at an average price of \$4.14 per share. As of April 30, 2021, the Company was permitted to purchase an additional \$121.2 million of its common stock.

**(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 months ended March 31, 2021:

(In Thousands)	Three Months Ended March 31, 2021			
	Net Unrealized Gain/(Loss) on AFS Securities	Net Gain/(Loss) on Swaps	Net Unrealized Gain/(Loss) on Financing Agreements (3)	Total AOCI
Balance at beginning of period	\$ 79,607	\$ —	\$ (2,314)	\$ 77,293
OCI before reclassifications	(3,855)	—	235	(3,620)
Amounts reclassified from AOCI (1)	—	—	—	—
Net OCI during the period (2)	(3,855)	—	235	(3,620)
Balance at end of period	\$ 75,752	\$ —	\$ (2,079)	\$ 73,673

(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).

(3) Net Unrealized Gain/(Loss) on Financing Agreements at Fair Value due to changes in instrument-specific credit risk.

The following table presents changes in the balances of each component of the Company's AOCI for the three months ended March 31, 2020:

(In Thousands)	Three Months Ended March 31, 2020		
	Net Unrealized Gain/(Loss) on AFS Securities	Net Gain/(Loss) on Swaps	Total AOCI
Balance at beginning of period	\$ 392,722	\$ (22,675)	\$ 370,047
OCI before reclassifications	124,410	(50,127)	74,283
Amounts reclassified from AOCI (1)	(368,222)	1,594	(366,628)
Net OCI during the period (2)	(243,812)	(48,533)	(292,345)
Balance at end of period	\$ 148,910	\$ (71,208)	\$ 77,702

(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).

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The following table presents information about the significant amounts reclassified out of the Company's AOCI for the three months ended March 31, 2021:

Details about AOCI Components	Three Months Ended March 31, 2021 Amounts Reclassified from AOCI	Affected Line Item in the Statement Where Net Income is Presented
<b>(In Thousands)</b>		
AFS Securities:		
Realized gain on sale of securities	\$ —	Net realized loss on sales of securities and residential whole loans
Impairment recognized in earnings	—	Other, net
Total AFS Securities	\$ —	
Total reclassifications for period	\$ —	

The following table presents information about the significant amounts reclassified out of the Company's AOCI for the three months ended March 31, 2020:

Details about AOCI Components	Three Months Ended March 31, 2020 Amounts Reclassified from AOCI	Affected Line Item in the Statement Where Net Income is Presented
<b>(In Thousands)</b>		
AFS Securities:		
Realized gain on sale of securities	\$ (23,953)	Net realized loss on sales of securities and residential whole loans
Impairment recognized in earnings	(344,269)	Other, net
Total AFS Securities	\$ (368,222)	
Swaps designated as cash flow hedges:		
Amortization of de-designated hedging instruments	1,594	Other, net
Total Swaps designated as cash flow hedges	1,594	
Total reclassifications for period	\$ (366,628)	

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## 12. EPS Calculation

The following table presents a reconciliation of the earnings/(loss) and shares used in calculating basic and diluted earnings/(loss) per share for the three months ended March 31, 2021 and 2020:

(In Thousands, Except Per Share Amounts)	Three Months Ended March 31,	
	2021	2020
<b>Basic Earnings/(Loss) per Share:</b>		
Net income/(loss) to common stockholders	\$ 85,522	\$ (908,995)
Dividends declared on preferred stock	(8,219)	(5,215)
Dividends, dividend equivalents and undistributed earnings allocated to participating securities	(274)	—
Net income/(loss) to common stockholders - basic	<u>\$ 77,029</u>	<u>\$ (914,210)</u>
Basic weighted average common shares outstanding	451,135	452,979
Basic Earnings/(Loss) per Share	\$ 0.17	\$ (2.02)
<b>Diluted Earnings/(Loss) per Share:</b>		
Net income/(loss) to common stockholders - basic	\$ 77,029	\$ (914,210)
Interest expense on Convertible Senior Notes	3,909	—
Net income/(loss) to common stockholders - diluted	<u>\$ 80,938</u>	<u>\$ (914,210)</u>
Basic weighted average common shares outstanding	451,135	452,979
Effect of assumed conversion of Convertible Senior Notes to common shares	28,920	—
Diluted weighted average common shares outstanding (1)	<u>480,055</u>	<u>452,979</u>
Diluted Earnings/(Loss) per Share	\$ 0.17	\$ (2.02)

(1) At March 31, 2021, the Company had approximately 3.1 million equity instruments outstanding that were not included in the calculation of diluted EPS for the three months ended March 31, 2021, as their inclusion would have been anti-dilutive. These equity instruments reflect RSUs (based on current estimate of expected share settlement amount) with a weighted average grant date fair value of \$4.87. These equity instruments may have a dilutive impact on future EPS.

During the three months ended March 31, 2021, the Convertible Senior Notes were determined to be dilutive and were included in the calculation of diluted EPS under the “if-converted” method. Under this method, the periodic interest expense for dilutive notes is added back to the numerator and the weighted average number of shares that the notes are entitled to (if converted, regardless of whether the conversion option is in or out of the money) is included in the denominator for the purpose of calculating diluted EPS. The Convertible Senior Notes may have a dilutive impact on future EPS.

## 13. Equity Compensation and Other Benefit Plans

### (a) Equity Compensation Plan

In accordance with the terms of the Company’s Equity Plan, which was adopted by the Company’s stockholders on June 10, 2020 (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 18.0 million shares of common stock may be granted under the Equity Plan; forfeitures and/or awards that expire unexercised do not count toward this limit. At March 31, 2021, approximately 12.5 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 2.0 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 June 10, 2030.

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*Restricted Stock Units*

Under the terms of the Equity Plan, RSUs are instruments that provide the holder with the right to receive, subject to the satisfaction of conditions set by the Compensation Committee at the time of grant, a payment of a specified value, which may be a share of the Company's common stock, the fair market value of a share of the Company's common stock, or such fair market value to the extent in excess of an established base value, on the applicable settlement date. Although the Equity Plan permits the Company to issue RSUs that can settle in cash, all of the Company's outstanding RSUs as of March 31, 2021 are designated to be settled in shares of the Company's common stock. The Company granted 2,485,124 and 1,204,713 RSUs during the three months ended March 31, 2021 and 2020, respectively. There were no RSUs forfeited during the three months ended March 31, 2021 and 2020. All RSUs outstanding at March 31, 2021 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 time-based and performance-based RSU awards, as a grant of stock at the time such awards are settled. At March 31, 2021 and December 31, 2020, the Company had unrecognized compensation expense of \$13.1 million and \$6.8 million, respectively, related to RSUs. The unrecognized compensation expense at March 31, 2021 is expected to be recognized over a weighted average period of 2.2 years.

*Restricted Stock*

The Company did not grant any shares of restricted common stock during the three months ended March 31, 2021 and 2020. At March 31, 2021, the Company did not have any unvested shares of restricted common stock outstanding.

*Dividend Equivalents*

A dividend equivalent is a right to receive a distribution equal to the dividend distributions that would be paid on a share of the Company's common stock. Dividend equivalents may be granted as a separate instrument or may be a right associated with the grant of another award (e.g., an RSU) under the Equity Plan, and they are paid in cash or other consideration at such times and in accordance with such rules as the Compensation Committee of the Board shall determine in its discretion. Payments made on the Company's outstanding dividend equivalent rights are generally charged to Stockholders' Equity when common stock dividends are declared to the extent that such equivalents are expected to vest. The Company made dividend equivalent payments associated with RSU awards of approximately \$137,000 and \$276,000 during the three months ended March 31, 2021 and 2020, respectively. In addition, no dividend equivalent rights awarded as separate instruments were granted during the three months ended March 31, 2021 and 2020.

*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 months ended March 31, 2021 and 2020:

(In Thousands)	Three Months Ended March 31,	
	2021	2020
RSUs	\$ 1,688	\$ 1,273
Total	\$ 1,688	\$ 1,273

*(b) 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.

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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 the three months ended March 31, 2021 and 2020:

(In Thousands)	Three Months Ended March 31,	
	2021	2020
Non-employee directors	\$ 131	\$ (1,906)
Total	\$ 131	\$ (1,906)

The following table presents the aggregate amount of income deferred by participants of the Deferred Plans through March 31, 2021 and December 31, 2020 that had not been distributed and the Company's associated liability for such deferrals at March 31, 2021 and December 31, 2020:

(In Thousands)	March 31, 2021		December 31, 2020	
	Undistributed Income Deferred (1)	Liability Under Deferred Plans	Undistributed Income Deferred (1)	Liability Under Deferred Plans
Non-employee directors	\$ 2,319	\$ 2,063	\$ 2,197	\$ 1,809
Total	\$ 2,319	\$ 2,063	\$ 2,197	\$ 1,809

(1) Represents the cumulative amounts that were deferred by participants through March 31, 2021 and December 31, 2020, which had not been distributed through such respective date.

**(c) 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 March 31, 2021 and 2020, the Company recognized expenses for matching contributions of \$125,000 and \$120,000, respectively.

**14. Fair Value of Financial Instruments**

GAAP requires the categorization of fair value measurements into three broad levels that form a hierarchy. 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.

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*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 that specializes in providing valuations of residential mortgage loans. The valuation approach applied generally depends on whether the loan is considered performing or non-performing at the date the valuation is performed. For performing loans, estimates of fair value are derived using a discounted cash flow approach, where estimates of cash flows are determined from the scheduled payments, adjusted using forecasted prepayment, default and loss given default rates. For non-performing loans, asset liquidation cash flows are derived based on the estimated time to liquidate the loan, the estimated value of the collateral, expected costs and estimated home price levels. Estimated cash flows for both performing and non-performing loans are discounted at yields considered appropriate to arrive at a reasonable exit price for the asset. Indications of loan value such as actual trades, bids, offers and generic market color may be used in determining the appropriate discount yield. The Company's residential whole loans held at fair value are classified as Level 3 in the fair value hierarchy.

*Securities, at Fair Value*

*Term Notes Backed by MSR-Related Collateral*

The Company's valuation process for term notes backed by MSR-related collateral is similar to that used for residential mortgage securities and 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. Other factors taken into consideration include estimated changes in fair value of the related underlying MSR collateral and, as applicable, 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. Based on its evaluation of the observability of the data used in its fair value estimation process, these assets are classified as Level 2 in the fair value hierarchy.

*Residential Mortgage Securities*

In determining the fair value of the Company's residential mortgage 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. 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 residential mortgage 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.

*Financing Agreements, at Fair Value*

*Agreements with mark-to-market collateral provisions*

These agreements are secured and subject to margin calls and their base interest rates reset frequently to market based rates. As a result, no credit valuation adjustment is required, and the primary factor in determining their fair value is the credit spread paid over the base rate, which is a non-observable input as it is determined based on negotiations with the counterparty. The Company's financing agreements with mark-to-market collateral provisions held at fair value are classified as Level 2 in the fair value hierarchy if the credit spreads used to price the instrument reset frequently, which is typically the case with shorter term repurchase agreement contracts collateralized by securities. Financing agreements with mark-to-market collateral provisions that are typically longer term and are collateralized by residential whole loans where the credit spread paid over the base rate on the instrument is not reset frequently are classified as Level 3 in the fair value hierarchy.

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*Agreements with non-mark-to-market collateral provisions*

These agreements are secured, but not subject to margin calls, and their base interest rates reset frequently to market based rates. As a result, a credit valuation adjustment would only be required if there were a significant decrease in collateral value, and the primary factor in determining their fair value is the credit spread paid over the base rate, which is a non-observable input as it is determined based on negotiations with the counterparty. The Company's financing agreements with non-mark-to-market collateral provisions held at fair value are classified as Level 3 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.

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.



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The following tables present the Company's financial instruments carried at fair value on a recurring basis as of March 31, 2021 and December 31, 2020, on the consolidated balance sheets by the valuation hierarchy, as previously described:

**Fair Value at March 31, 2021**

(In Thousands)	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Residential whole loans, at fair value	\$ —	\$ —	\$ 1,320,199	\$ 1,320,199
Securities, at fair value	—	350,115	—	350,115
Total assets carried at fair value	<u>\$ —</u>	<u>\$ 350,115</u>	<u>\$ 1,320,199</u>	<u>\$ 1,670,314</u>
<b>Liabilities:</b>				
Agreements with non-mark-to-market collateral provisions	\$ —	\$ —	\$ 1,041,283	\$ 1,041,283
Agreements with mark-to-market collateral provisions	—	200,746	979,541	1,180,287
Securitized debt	—	753,008	—	753,008
Total liabilities carried at fair value	<u>\$ —</u>	<u>\$ 953,754</u>	<u>\$ 2,020,824</u>	<u>\$ 2,974,578</u>

**Fair Value at December 31, 2020**

(In Thousands)	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Residential whole loans, at fair value	\$ —	\$ —	\$ 1,216,902	\$ 1,216,902
Securities, at fair value	—	399,999	—	399,999
Total assets carried at fair value	<u>\$ —</u>	<u>\$ 399,999</u>	<u>\$ 1,216,902</u>	<u>\$ 1,616,901</u>
<b>Liabilities:</b>				
Agreements with non-mark-to-market collateral provisions	\$ —	\$ —	\$ 1,159,213	\$ 1,159,213
Agreements with mark-to-market collateral provisions	—	213,915	1,124,162	1,338,077
Securitized debt	—	869,482	—	869,482
Total liabilities carried at fair value	<u>\$ —</u>	<u>\$ 1,083,397</u>	<u>\$ 2,283,375</u>	<u>\$ 3,366,772</u>

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

The following table presents additional information for the three months ended March 31, 2021 and 2020 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:

(In Thousands)	Residential Whole Loans, at Fair Value	
	Three Months Ended March 31,	
	2021 (1)	2020
Balance at beginning of period	\$ 1,216,902	\$ 1,381,583
Purchases	—	—
Changes in fair value recorded in Net gain on residential whole loans measured at fair value through earnings	32,088	(74,556)
Repayments	(25,571)	(20,285)
Sales and repurchases	—	(305)
Transfer to REO	(15,422)	(42,645)
Balance at end of period	\$ 1,207,997	\$ 1,243,792

(1) Excluded from the table above are approximately \$112.2 million of Residential whole loans, at fair value for which the closing of the purchase transaction had not occurred as of March 31, 2021.

The following table presents additional information for the three months ended March 31, 2021 about the Company's financing agreements with non-mark-to-market collateral provisions, which are classified as Level 3 and measured at fair value on a recurring basis:

(In Thousands)	Agreements with Non-mark-to-market Collateral Provisions	
	Three Months Ended March 31,	
	2021	
Balance at beginning of period	\$ 1,159,213	
Issuances	—	
Payment of principal	(117,695)	
Changes in unrealized losses	(235)	
Balance at end of period	\$ 1,041,283	

The following table presents additional information for the three months ended March 31, 2021 about the Company's financing agreements with mark-to-market collateral provisions, which are classified as Level 3 and measured at fair value on a recurring basis:

(In Thousands)	Agreements with Mark-to-market Collateral Provisions	
	Three Months Ended March 31,	
	2021	
Balance at beginning of period	\$ 1,124,162	
Issuances	91,997	
Payment of principal	(236,618)	
Changes in unrealized losses	—	
Balance at end of period	\$ 979,541	

At June 30, 2020, the Company's financing agreements with non-mark-to-market collateral provisions and the Company's financing agreements with mark-to-market collateral provisions had just been issued and were therefore classified as Level 2 since their values were based on market transactions. However, market information for similar financings was not available at March 31, 2021 and the Company valued these financing instruments based on unobservable inputs.

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**Fair Value Methodology for Level 3 Financial Instruments**

*Residential Whole Loans, at Fair Value*

The following tables present 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 March 31, 2021 and December 31, 2020:

(Dollars in Thousands)	Fair Value (1)	Valuation Technique	March 31, 2021		
			Unobservable Input	Weighted Average (2)	Range
Residential whole loans, at fair value	\$ 798,185	Discounted cash flow	Discount rate	3.8 %	3.3-8.0%
			Prepayment rate	4.2 %	0.7-8.9%
			Default rate	3.4 %	0.0-17.9%
			Loss severity	12.1 %	0.0-100.0%
	\$ 409,546	Liquidation model	Discount rate	8.1 %	6.7-50.0%
			Annual change in home prices	6.2 %	4.2-10.4%
			Liquidation timeline (in years)	1.8	0.7-4.8
			Current value of underlying properties (3)	\$ 744	\$5-\$3,704
<b>Total</b>	<b>\$ 1,207,731</b>				

(Dollars in Thousands)	Fair Value (1)	Valuation Technique	December 31, 2020		
			Unobservable Input	Weighted Average (2)	Range
Residential whole loans, at fair value	\$ 789,576	Discounted cash flow	Discount rate	3.9 %	3.3-8.0%
			Prepayment rate	4.8 %	0.0-9.9%
			Default rate	3.8 %	0.0-18.9%
			Loss severity	12.7 %	0.0-100.0%
	\$ 427,061	Liquidation model	Discount rate	8.1 %	6.7-50.0%
			Annual change in home prices	3.6 %	0.0-6.5%
			Liquidation timeline (in years)	1.8	0.8-4.8
			Current value of underlying properties (3)	\$ 729	\$12-\$4,500
<b>Total</b>	<b>\$ 1,216,637</b>				

(1) Excludes approximately \$112.5 million and \$265,000 of loans for which management considers the purchase price continues to reflect the fair value of such loans at March 31, 2021 and December 31, 2020, 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 \$403,000 and \$380,000 as of March 31, 2021 and December 31, 2020, respectively.

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Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant increase or decrease in the fair value of residential whole loans. Loans valued using a discounted cash flow model are most sensitive to changes in the discount rate assumption, while loans valued using the liquidation model technique are most sensitive to changes in the current value of the underlying properties and the liquidation timeline. Increases in discount rates, default rates, loss severities, or liquidation timelines, either in isolation or collectively, would generally result in a lower fair value measurement, whereas increases in the current or expected value of the underlying properties, in isolation, would result in a higher fair value measurement. In practice, changes in valuation assumptions may not occur in isolation and the changes in any particular assumption may result in changes in other assumptions, which could offset or amplify the impact on the overall valuation.

The following table presents the carrying values and estimated fair values of the Company's financial instruments at March 31, 2021 and December 31, 2020:

(In Thousands)	March 31, 2021	March 31, 2021		December 31, 2020	
	Level in Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Financial Assets:</b>					
Residential whole loans, at carrying value	3	\$ 3,869,056	\$ 4,072,021	\$ 4,108,499	\$ 4,282,401
Residential whole loans, at fair value	3	1,320,199	1,320,199	1,216,902	1,216,902
Securities, at fair value	2	350,115	350,115	399,999	399,999
Cash and cash equivalents	1	780,714	780,714	814,354	814,354
Restricted cash	1	5,150	5,150	7,165	7,165
<b>Financial Liabilities (1):</b>					
Financing agreements with non-mark-to-market collateral provisions	3	1,041,283	1,041,283	1,159,213	1,159,213
Financing agreements with mark-to-market collateral provisions	3	979,541	979,541	1,124,162	1,124,162
Financing agreements with mark-to-market collateral provisions	2	200,746	200,746	213,915	213,915
Securitized debt (2)	2	1,548,920	1,552,493	1,514,509	1,519,567
Convertible senior notes	2	225,492	232,042	225,177	228,287
Senior notes (3)	1	—	—	100,000	100,031

(1) Carrying value of securitized debt, Convertible Senior Notes, Senior Notes and certain repurchase agreements is net of associated debt issuance costs.

(2) Includes Securitized debt that is carried at amortized cost basis and fair value.

(3) On January 6, 2021, the Company redeemed all of its outstanding Senior Notes (see Note 6).

*Other Assets Measured at Fair Value on a Nonrecurring Basis*

The Company holds REO at the lower of the current carrying amount or fair value less estimated selling costs. During the three months ended March 31, 2021 and 2020, the Company recorded REO with an aggregate estimated fair value, less estimated cost to sell, of \$20.1 million and \$50.7 million, respectively, at the time of foreclosure. The Company classifies fair value measurements of REO as Level 3 in the fair value hierarchy.

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**15. 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 re-securitizing 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 a 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 entered into several financing transactions that resulted in the Company consolidating as VIEs the SPEs that were created to facilitate these transactions. See Note 2(p) for a discussion of the accounting policies applied to the consolidation of VIEs and transfers of financial assets in connection with financing transactions.

The Company has engaged in loan securitizations primarily for the purpose of obtaining improved overall financing terms as well as non-recourse financing on a portion of its residential whole loan portfolio. 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 Transactions*

The following table summarizes the key details of the Company’s loan securitization transactions currently outstanding as of March 31, 2021 and December 31, 2020:

(Dollars in Thousands)	March 31, 2021	December 31, 2020
Aggregate unpaid principal balance of residential whole loans sold (1)	\$ 2,108,950	\$ 2,232,561
Face amount of Senior Bonds issued by the VIE and purchased by third-party investors	\$ 1,853,013	\$ 1,862,068
Outstanding amount of Senior Bonds, at carrying value	\$ 795,912 (2)	\$ 645,027 (2)
Outstanding amount of Senior Bonds, at fair value	\$ 753,008	\$ 869,482
Outstanding amount of Senior Bonds, total	\$ 1,548,920	\$ 1,514,509
Weighted average fixed rate for Senior Bonds issued	1.71 % (3)	2.11 % (3)
Weighted average contractual maturity of Senior Bonds	42 years (3)	41 years (3)
Face amount of Senior Support Certificates received by the Company (4)	\$ 225,729	\$ 268,548
Cash received	\$ 1,852,989	\$ 1,853,408

(1) Excludes \$41.6 million of unpaid principal balances associated with certain REO properties securitized in the quarter ended March 31, 2021. Such amount represents the unpaid principal balance of the related loans immediately prior to conversion to REO.

(2) Net of \$4.1 million and \$3.2 million of deferred financing costs at March 31, 2021 and December 31, 2020, respectively.

(3) At March 31, 2021 and December 31, 2020, \$505.1 million and \$568.7 million, respectively, of Senior Bonds sold in securitization transactions contained a contractual coupon step-up feature whereby the coupon increases by either 100 or 300 basis points or more at 36 months from issuance if the bond is not redeemed before such date.

(4) Provides credit support to the Senior Bonds sold to third-party investors in the securitization transactions.

During the three months ended March 31, 2021, the Company issued Senior Bonds with a current face of \$437.9 million to third-party investors for proceeds of \$437.9 million, before offering costs and accrued interest. The Senior Bonds issued by the Company during the three months ended March 31, 2021 are included in “Other financing agreements” (at carrying value) on the Company’s consolidated balance sheets (see Note 6).

As of March 31, 2021 and December 31, 2020, as a result of the transactions described above, securitized loans with a carrying value of approximately \$1.5 billion and \$1.4 billion are included in “Residential whole loans, at carrying value,”

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securitized loans with a fair value of approximately \$311.6 million and \$382.3 million are included in “Residential whole loans, at fair value,” and REO with a carrying value of approximately \$39.8 million and \$49.5 million are included in “Other assets” on the Company’s consolidated balance sheets, respectively. As of March 31, 2021 and December 31, 2020, the aggregate carrying value of Senior Bonds issued by consolidated VIEs was \$1.5 billion and \$1.5 billion, respectively. These Senior Bonds are disclosed as “Securitized debt” and are included in Other liabilities on the Company’s consolidated balance sheets. The holders of the securitized debt 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 with respect 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.

The Company concluded that the entities created to facilitate the loan securitization transactions are VIEs. The Company completed an analysis of whether each VIE created to facilitate the securitization 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 the loan securitization transactions.

*Residential Whole Loans and REO (including Residential Whole Loans and REO transferred to consolidated VIEs)*

Included on the Company’s consolidated balance sheets as of March 31, 2021 and December 31, 2020 are a total of \$5.2 billion and \$5.3 billion, respectively, of residential whole loans, of which approximately \$3.9 billion and \$4.1 billion, respectively, are reported at carrying value and \$1.3 billion and \$1.2 billion, respectively, are reported at fair value. These assets, and certain of the Company’s REO assets, are directly owned by certain trusts established by the Company to acquire the loans and entities established in connection with the Company’s loan securitization transactions. The Company has assessed that these entities are required to be consolidated (see Notes 3 and 5(a)).

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**16. Subsequent Events**

**Securitization of Non-QM loans**

Subsequent to the end of the first quarter the Company completed another securitization of Non-QM loans of \$394.2 million, with a weighted average cost of bonds sold of 1.37%, lowering the cost of financing by approximately 203 basis points.

**Acquisition of Lima One Holdings, LLC**

Subsequent to the end of the first quarter of 2021, the Company signed an agreement with entities affiliated with Magnetar Capital (the “Magnetar entities”) to acquire the membership interests held by them in Lima One Holdings, LLC, the parent entity of Lima One Capital, LLC, a leading nationwide originator and servicer of business purpose loans. The all-cash transaction, the consummation of which is subject to the receipt of certain regulatory approvals and third-party consents, is expected to close in the third fiscal quarter of 2021. Upon closing, the Company will own substantially all of the equity interests in Lima One Holdings, LLC, which will result in the consolidation of Lima One’s financial results in the Company’s financial statements following the closing.

## 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, 2020.

### 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 Securities Act and Section 21E of the Exchange 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: risks related to the ongoing spread of the novel coronavirus and the COVID-19 pandemic, including its effects on the general economy and our business, financial position and results of operations (including, among other potential effects, increased delinquencies and greater than expected losses in our whole loan portfolio); changes in interest rates and the market (i.e., fair) value of our residential whole loans, MBS and other assets; changes in the prepayment rates on residential mortgage assets, an increase of which could result in a reduction of the yield on certain investments in its portfolio and could require us to reinvest the proceeds received by it as a result of such prepayments in investments with lower coupons, while a decrease in which could result in an increase in the interest rate duration of certain investments in our portfolio making their valuation more sensitive to changes in interest rates and could result in lower forecasted cash flows; credit risks underlying our assets, including changes in the default rates and management's assumptions regarding default rates on the mortgage loans in 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 residential whole loans and the extent of prepayments, realized losses and changes in the composition of our residential whole loan portfolios that may occur during the applicable tax period, including gain or loss on any MBS disposals and whole loan modifications, foreclosures and liquidations; the timing and amount of distributions to stockholders, which are declared and paid at the discretion of 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 continue growing 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 residential whole loans (or NPLs), which are affected by, among other things, the length of time required to foreclose upon, sell, liquidate or otherwise reach a resolution of the property underlying the NPL, home price values, amounts advanced to carry the asset (e.g., taxes, insurance, maintenance expenses, etc. on the underlying property) and the amount ultimately realized upon resolution of the asset; targeted or expected returns on our investments in recently-originated loans, the performance of which is, similar to our other mortgage loan investments, subject to, among other things, differences in prepayment risk, credit risk and financing cost associated with such investments; risks associated with our investments in MSR-related assets, including servicing, regulatory and economic risks, risks associated with our investments in loan originators, risks associated with investing in real estate assets, including changes in business conditions and the general economy and risks associated with our expected acquisition of Lima One Holdings, LLC, including the timing and expected benefits of such acquisition. 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.

## Recent Developments

### Acquisition of Lima One Holdings, LLC

Subsequent to the end of the first quarter of 2021, we signed an agreement with entities affiliated with Magnetar Capital (or, the Magnetar entities) to acquire the membership interests held by them in Lima One Holdings, LLC, the parent entity of Lima One Capital, LLC, a leading nationwide originator and servicer of business purpose loans. The all-cash transaction, the consummation of which is subject to the receipt of certain regulatory approvals and third-party consents, is expected to close in the third fiscal quarter of 2021. Upon closing, we will own substantially all of the equity interests in Lima One Holdings, LLC, which will result in the consolidation of Lima One's financial results in our financial statements following the closing.

## Business/General

We are an internally-managed REIT primarily engaged in the business of investing, on a leveraged basis, in residential mortgage assets, including residential whole loans, residential mortgage 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 March 31, 2021, we had total assets of approximately \$6.7 billion, of which \$5.2 billion, or 77%, represented residential whole loans acquired through interests in certain trusts established to acquire the loans. Our Purchased Performing Loans, which as of March 31, 2021 comprised approximately 63% of our residential whole loans, include: (i) loans to finance (or refinance) one-to-four family residential properties that are not considered to meet the definition of a "Qualified Mortgage" in accordance with guidelines adopted by the Consumer Financial Protection Bureau (or Non-QM loans), (ii) short-term business purpose loans collateralized by residential properties made to non-occupant borrowers who intend to rehabilitate and sell the property for a profit (or Rehabilitation loans or Fix and Flip loans), (iii) loans to finance (or refinance) non-owner occupied one-to-four family residential properties that are rented to one or more tenants (or Single-family rental loans), and (iv) previously originated loans secured by residential real estate that is generally owner occupied (or Seasoned performing loans). In addition, at March 31, 2021, we had approximately \$350.1 million in investments in Securities, at fair value, which represented approximately 5% of our total assets. At such date, our Securities, at fair value portfolio included MSR-related assets, CRT securities and RPL/NPL MBS. Our MSR-related assets include term notes whose cash flows are considered to be largely dependent on MSR collateral and loan participations to provide financing to mortgage originators that own MSRs. Our remaining investment-related assets, which represent approximately 5% of our total assets at March 31, 2021, were primarily comprised of REO, capital contributions made to loan origination partners and MBS and loan-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 and 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. Changes in these factors, or uncertainty in the market regarding the potential for changes in these factors, can result in significant changes in the value and/or performance of our investment portfolio. Further, our GAAP results may be impacted by market volatility, resulting in changes in market values of certain financial instruments for which changes in fair value are recorded in net income each period, such certain residential whole loans and CRT Securities. 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, 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 an asset as a percentage of the asset 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. Our financial results are impacted by estimates of credit losses that are required to be recorded when loans that are not accounted for at fair value through net income are acquired or originated, as well as changes in these credit loss estimates that will be required to be made periodically.

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 certain of our residential mortgage assets and, correspondingly, our stockholders' equity to decline; (iii) coupons on our adjustable-rate assets to reset, on a delayed basis, to higher interest rates; (iv) prepayments on our assets to decline, thereby slowing the amortization of purchase premiums and the accretion of our purchase discounts, and slowing our ability to redeploy capital to generally higher yielding investments; and (v) the value of our derivative hedging instruments, if any, 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 certain of our residential mortgage assets and, correspondingly, our stockholders' equity to increase; (iii) coupons on our adjustable-rate assets, on a delayed basis, to lower interest rates; (iv) prepayments on our assets to increase, thereby accelerating the amortization of purchase premiums and the accretion of our purchase discounts, and accelerating the redeployment of our capital to generally lower yielding investments; and (v) the value of our derivative hedging instruments, if any, 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, meaning that we are generally subject to credit losses due to the risk of delinquency, default and foreclosure on the underlying real estate collateral. Our investment process for credit sensitive assets focuses primarily on quantifying and pricing credit risk. With respect to investments in Purchased Performing Loans, we believe that sound underwriting standards, including low LTVs at origination, significantly mitigate our risk of loss. Further, we believe the discounted purchase prices paid on certain non-performing and Purchased Credit Deteriorated Loans 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.

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) or when we acquire residential whole loans at a price in excess of their aggregate principal balance. 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. Accretible purchase discounts on these investments are accreted to interest income. Purchase premiums, which are primarily carried on certain of our Non-QM and business purpose loans, are amortized against interest income over the life of the investment 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 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 a loan, and the conditional default rate (or CDR), which measures involuntary prepayments resulting from defaults. CPRs on our residential mortgage securities and whole loans may differ significantly. For the three months ended March 31, 2021, the average CPR on our Non-QM loan portfolio was 30.2%. For the three months ended March 31, 2021, the average CPR on our Single-family rental loan portfolio was 12.2%.

It is generally 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 investments in securities that are designated as AFS for 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.

Our residential mortgage investments have longer-term contractual maturities than our financing liabilities. 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 in the past have generally been comprised of Swaps. The majority of our Swap derivative instruments have generally been designated as cash-flow hedges against a portion of our then current and forecasted LIBOR-based repurchase agreements. Following the significant interest rate decreases that occurred late in the first quarter of 2020, we unwound all of our Swap transactions at the end of the first quarter of 2020.

## Recent Market Conditions and Our Strategy

### First quarter 2021 Portfolio Activity and impact on financial results:

At March 31, 2021, our residential mortgage asset portfolio, which includes residential whole loans and REO, and Securities, at fair value was approximately \$5.8 billion compared to \$6.0 billion at December 31, 2020.

The following table presents the activity for our residential mortgage asset portfolio for the three months ended March 31, 2021:

(In Millions)	December 31, 2020	Runoff (1)	Acquisitions	Other (2)	March 31, 2021	Change
Residential whole loans and REO	\$ 5,575	\$ (484)	\$ 253	\$ 65	\$ 5,409	\$ (166)
Securities, at fair value	400	(59)	—	10	351	(49)
<b>Totals</b>	<b>\$ 5,975</b>	<b>\$ (543)</b>	<b>\$ 253</b>	<b>\$ 75</b>	<b>\$ 5,760</b>	<b>\$ (215)</b>

(1) Primarily includes principal repayments, cash collections on Purchased Credit Deteriorated Loans and sales of REO.

(2) Primarily includes changes in fair value and adjustments to record lower of cost or estimated fair value adjustments on REO.

At March 31, 2021, our total recorded investment in residential whole loans and REO was \$5.4 billion, or 93.9% of our residential mortgage asset portfolio. Of this amount, (i) \$3.9 billion is presented as Residential whole loans, at carrying value (of which \$3.3 billion were Purchased Performing Loans and \$612.4 million were Purchased Credit Deteriorated Loans), and (ii) \$1.3 billion is presented as Residential whole loans, at fair value, in our consolidated balance sheets. For the three months ended March 31, 2021, we recognized approximately \$45.3 million of income on Residential whole loans, at carrying value in Interest Income on our consolidated statements of operations, representing an effective yield of 4.42% (excluding servicing costs), with Purchased Performing Loans generating an effective yield of 4.31% and Purchased Credit Deteriorated Loans generating an effective yield of 5.00%. In addition, we recorded a net gain on residential whole loans measured at fair value through earnings of \$49.8 million in Other Income, net in our consolidated statements of operations for the three months ended March 31, 2021. At March 31, 2021 and December 31, 2020, we had REO with an aggregate carrying value of \$220.4 million and \$249.7 million, respectively, which is included in Other assets on our consolidated balance sheets.

In response to the financial impact of COVID-19 on borrowers, and in compliance with various federal and state guidelines, starting in the first quarter of 2020, we offered short-term relief to certain borrowers who were contractually current at the time the pandemic started to impact the economy. Under the terms of such plans, for certain borrowers a deferral plan was entered into where missed payments were deferred to the maturity of the related loan, with a corresponding change to the loan's next payment due date. In addition, certain borrowers were granted up to a seven-month "zero pay" forbearance with payments required to resume at the conclusion of the plan. For these borrowers, delinquent payments were permitted to be placed on specified repayment plans. While the majority of the borrowers granted relief have resumed making payments at the conclusion of such deferral and forbearance periods, certain borrowers, particularly in our Non-QM loan portfolio, continue to be impacted financially by COVID-19 and have not yet resumed payments. When these borrowers became more than 90 days delinquent on payments, any interest income receivable related to the associated loans was reversed in accordance with our non-accrual policies. At March 31, 2021, Non-QM loans with an amortized cost of \$135.3 million, or 6.1% of the portfolio, were more than 90 days delinquent. For these and other borrowers that have been impacted by the COVID-19, we are continuing to evaluate loss mitigation options with respect to these loans, including forbearance, repayment plans, loan modification and foreclosure. In addition, at March 31, 2021, Rehabilitation Loans to fix and flip borrowers with an amortized cost of \$137.0 million, or 29.5% of the portfolio, were more than 90 days delinquent. Because rehabilitation loans are shorter term and repayment is usually dependent on completion of the rehabilitation project and sale of the property, the strategy to resolve delinquent rehabilitation loans differs from owner occupied loans. Consequently, forbearance and repayment plans are offered less frequently. However, we seek to work with delinquent fix and flip borrowers whose projects are close to completion or are listed for sale in order to provide the borrower the opportunity to sell the property and repay our loan. In circumstances where the borrower is not able to complete the project or we are not able to work with the borrower to our mutual benefit, we pursue foreclosure or other forms of resolution.

At March 31, 2021, our Securities, at fair value totaled \$350.1 million and included \$244.7 million of MSR-related assets, \$103.8 million of CRT securities and \$1.6 million of RPL/NPL MBS. The net yield on our Securities, at fair value was 22.25% for the first quarter of 2021, compared to 5.22% for the first quarter 2020. The increase in the net yield on our Securities, at fair value portfolio reflects accretion income of approximately \$8.1 million recognized in the current year quarter due to the redemption of a RPL/NPL MBS security that had been previously purchased at a discount.

We adopted the new accounting standard addressing the measurement of credit losses on financial instruments (CECL) on January 1, 2020. CECL requires that reserves for credit losses be estimated at the reporting date based on expected cash flows for the life of the loan or financial asset, including anticipated prepayments and reasonable and supportable forecasts of future economic conditions. For the first quarter of 2021, we recorded a reversal of provision for credit losses on residential whole loans held at carrying value of \$22.8 million. The reversal for the period primarily reflects an adjustment to certain macro-economic inputs to our loan loss estimates and lower loan balances. The total allowance for credit losses recorded on residential whole loans held at carrying value at March 31, 2021 was \$63.2 million. In addition, as of March 31, 2021, CECL reserves for credit losses totaling approximately \$796,000 were recorded related to undrawn commitments on loans held at carrying value.

During the first quarter of 2021, we continued to execute on our strategy of entering into more durable forms of financing by completing a securitization consisting of \$217.5 million of business purpose rental loans, generating approximately \$48.4 million of additional liquidity. As the weighted average coupon of the bonds sold was approximately 1.06%, this transaction is expected to lower the funding rate of the underlying assets by more than 150 basis points. During the first quarter, we also completed a securitization transaction collateralized by non-performing loans with an unpaid principal balance of \$325.7 million and REO with an estimated value of \$50.6 million, which lowered the funding rate for the associated assets by approximately 168 basis points. Subsequent to the end of the first quarter, we completed another securitization of Non-QM loans of \$394.2 million, with a weighted average cost of bonds sold of 1.37%, lowering the funding rate of financing by approximately 203 basis points. Additionally, on January 6, 2021, we redeemed all of our outstanding \$100 million aggregate principal amount of 8.00% Senior Notes Due 2042.

Our GAAP book value per common share was \$4.63 as of March 31, 2021. Book value per common share increased from \$4.54 as of December 31, 2020. Economic book value per common share, a non-GAAP financial measure of our financial position that adjusts GAAP book value by the amount of unrealized mark-to-market gains on our residential whole loans held at carrying value, was \$5.09 as of March 31, 2021, an increase from \$4.92 as of December 31, 2020. Increases in GAAP and Economic book value during the first quarter of 2021 reflect higher asset prices for residential mortgage assets. For additional information regarding the calculation of Economic book value per share, including a reconciliation to GAAP book value per share, refer to page 71 under the heading "Economic Book Value."

## Information About Our Assets

The table below presents certain information about our asset allocation at March 31, 2021:

(Dollars in Millions)	<b>ASSET ALLOCATION</b>					
	Residential Whole Loans, at Carrying Value (1)	Residential Whole Loans, at Fair Value	Securities, at fair value	Real Estate Owned	Other, net (2)	Total
Fair Value/Carrying Value	\$ 3,869	\$ 1,320	\$ 350	\$ 220	\$ 890	\$ 6,649
Payable for Unsettled Purchases	—	(112)	—	—	—	(112)
Financing Agreements with non-mark-to-market collateral provisions	(795)	(239)	—	(7)	—	(1,041)
Financing Agreements with mark-to-market collateral provisions	(732)	(236)	(201)	(11)	—	(1,180)
Less Securitized Debt	(1,314)	(224)	—	(11)	—	(1,549)
Less Convertible Senior Notes	—	—	—	—	(225)	(225)
Net Equity Allocated	<u>\$ 1,028</u>	<u>\$ 509</u>	<u>\$ 149</u>	<u>\$ 191</u>	<u>\$ 665</u>	<u>\$ 2,542</u>
Debt/Net Equity Ratio (3)	<u>2.8 x</u>	<u>1.6 x</u>	<u>1.3 x</u>	<u>0.2 x</u>		<u>1.6 x</u>

(1) Includes \$2.2 billion of Non-QM loans, \$450.7 million of Rehabilitation loans, \$449.0 million of Single-family rental loans, \$128.0 million of Seasoned performing loans, and \$612.4 million of Purchased Credit Deteriorated Loans. At March 31, 2021, the total fair value of these loans is estimated to be approximately \$4.1 billion.

(2) Includes \$780.7 million of cash and cash equivalents, \$5.2 million of restricted cash, and \$81.4 million of capital contributions made to loan origination partners, as well as other assets and other liabilities.

(3) Total Debt/Net Equity ratio represents the sum of borrowings under our financing agreements noted above as a multiple of net equity allocated.

## Residential Whole Loans

The following table presents the contractual maturities of our residential whole loan portfolios at March 31, 2021. Amounts presented do not reflect estimates of prepayments or scheduled amortization.

(In Thousands)	Purchased Performing Loans (1)	Purchased Credit Deteriorated Loans (2)	Residential Whole Loans, at Fair Value (3)
Amount due:			
Within one year	\$ 450,625	\$ 708	\$ 3,913
After one year:			
Over one to five years	35,896	3,401	4,390
Over five years	2,801,169	640,502	1,199,694
Total due after one year	\$ 2,837,065	\$ 643,903	\$ 1,204,084
Total residential whole loans	\$ 3,287,690	\$ 644,611	\$ 1,207,997

(1) Excludes an allowance for credit losses of \$31.0 million at March 31, 2021.

(2) Excludes an allowance for credit losses of \$32.2 million at March 31, 2021.

(3) Excluded from the table above are approximately \$112.2 million of Residential whole loans, at fair value for which the closing of the purchase transaction had not occurred as of March 31, 2021.

The following table presents, at March 31, 2021, the dollar amount of certain of our residential whole loans, contractually maturing after one year, and indicates whether the loans have fixed interest rates or adjustable interest rates:

(In Thousands)	Purchased Performing Loans (1)(2)	Purchased Credit Deteriorated Loans (1)(3)	Residential Whole Loans, at Fair Value (1)(4)
Interest rates:			
Fixed	\$ 987,320	\$ 477,770	\$ 905,397
Adjustable	1,849,745	166,133	298,687
Total	\$ 2,837,065	\$ 643,903	\$ 1,204,084

(1) Includes loans on which borrowers have defaulted and are not making payments of principal and/or interest as of March 31, 2021.

(2) Excludes an allowance for credit losses of \$31.0 million at March 31, 2021.

(3) Excludes an allowance for credit losses of \$32.2 million at March 31, 2021.

(4) Excluded from the table above are approximately \$112.2 million of Residential whole loans, at fair value for which the closing of the purchase transaction had not occurred as of March 31, 2021.

**Securities, at Fair Value**

The following table presents information with respect to our Securities, at fair value at March 31, 2021 and December 31, 2020:

(Dollars in Thousands)	March 31, 2021		December 31, 2020	
<b>MSR-Related Assets</b>				
Face/Par	\$	247,263	\$	249,769
Fair Value		244,700		238,999
Amortized Cost		185,621		184,908
Weighted average yield		12.10 %		12.30 %
Weighted average time to maturity		8.2 years		8.7 years
<b>CRT Securities</b>				
Face/Par	\$	103,898	\$	104,031
Fair Value		103,826		104,234
Amortized Cost		86,826		86,214
Weighted average yield		8.30 %		7.37 %
Weighted average time to maturity		19.5 years		19.7 years
<b>RPL/NPL MBS</b>				
Face/Par	\$	1,589	\$	54,998
Fair Value		1,589		53,946
Amortized Cost		1,588		46,862
Weighted average yield		9.38 %		7.55 %
Weighted average time to maturity		26.3 years		28.7 years

**Tax Considerations**

*Current period estimated taxable income*

We estimate that for the three months ended March 31, 2021, our taxable income was approximately \$9.4 million. We have until the filing of our 2020 tax return (due not later than October 15, 2021) to declare the distribution of any 2020 REIT taxable income not previously distributed.

*Key differences between GAAP net income and REIT Taxable Income*

*Residential Whole Loans and Securities*

The determination of taxable income attributable to residential whole loans and securities is dependent on a number of factors, including principal payments, defaults, loss mitigation efforts and loss severities. In estimating taxable income for such investments 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.

Potential timing differences can arise with respect to the accretion of discount and amortization of premium into income as well as the recognition of gain or loss for tax purposes as compared to GAAP. For example: a) while our REIT uses fair value accounting for GAAP in some instances it generally is not used for purposes of determining taxable income; b) impairments generally are not recognized by us for income tax purposes until the asset is written-off or sold; c) capital losses may only be recognized by us to the extent of its capital gains; capital losses in excess of capital gains generally are carried over by us for potential offset against future capital gains; and d) tax hedge gains and losses resulting from the termination of interest rate swaps by us generally are amortized over the remaining term of the swap.

*Securitization*

Generally, securitization transactions for GAAP and Tax can be characterized as either sales or financings, depending on transaction type, structure and available elections. For GAAP purposes, our securitizations have been treated as on-balance sheet financing transactions. For tax purposes, they have been characterized as both financing and sale transactions.

Where a securitization has been characterized as a sale, gain or loss is recognized for tax purposes. In addition, we own or may in the future acquire interests in securitization and/or re-securitization 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, for tax purposes 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. 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 affecting our dividend distribution requirement to stockholders.

For securitization and/or re-securitization transactions that were treated as a sale of the underlying collateral for tax purposes, the unwinding of any such transaction will likely result in taxable income or loss. Given that securitization and re-securitization transactions are typically accounted for as financing transactions for GAAP purposes, such income or loss is not likely to be recognized for GAAP. As a result, the income recognized from securitization and re-securitization transactions may differ for tax and GAAP purposes.

*Whether our investments are held by our REIT or one of its Taxable REIT Subsidiaries (TRS)*

Net income generated by our TRS subsidiaries is included in consolidated GAAP net income, but may not be included in REIT taxable income in the same period. REIT taxable income generally does not include taxable income of the TRS unless and until it is distributed to the REIT. For example, because our securitization transactions that are treated as a sale for tax purposes are undertaken by a domestic TRS any gain or loss recognized on the sale is not included in our REIT taxable income until it is distributed by the TRS. Similarly, the income earned from loans, securities, REO and other investments held by our domestic TRS is excluded from REIT taxable income until it is distributed by the TRS. Net income of our foreign domiciled TRS subsidiaries is included in REIT taxable income as if distributed to the REIT in the taxable year it is earned by the foreign domiciled TRS.

Consequently, our REIT taxable income calculated in a given period may differ significantly from our GAAP net income.

## **Regulatory Developments**

The U.S. Congress, U.S. Federal Reserve, U.S. Treasury, Federal Deposit Insurance Corporation, SEC and other governmental and regulatory bodies have taken 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 U.S. Federal Reserve System 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 and servicing. 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 and servicing. In addition, the Dodd-Frank Act grants enforcement authority and 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.

Numerous regulations have been issued pursuant to the Dodd-Frank Act, including regulations regarding mortgage loan servicing, underwriting and loan originator compensation and others could be issued in the future. 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. 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 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 Federal Housing Finance Agency (or FHFA) and both houses of Congress have discussed and considered various 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. On March 27, 2019, then President Trump issued a memorandum on federal housing finance reform that directed the Secretary of the Treasury to develop a plan for administrative and legislative reforms as soon as practicable to achieve the following housing reform goals: 1) ending the conservatorships of the Government-sponsored enterprises (or GSEs) upon the completion of specified reforms; 2) facilitating competition in the housing finance market; 3) establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and 4) providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market. On September 5, 2019, in response to then President Trump’s memorandum, the U.S. Department of the Treasury released a plan, developed in conjunction with the FHFA, the Department of Housing and Urban Development, and other government agencies, which includes legislative and administrative reforms to achieve each of these reform goals. At this point, it remains unclear whether any of these legislative or regulatory reforms will be enacted or implemented. The prospects for passage of any of these plans are uncertain, but the proposals underscore the potential for change to Fannie Mae and Freddie Mac.

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. A reduction in the ability of mortgage loan originators to access Fannie Mae and Freddie Mac to sell their mortgage loans may adversely affect the mortgage markets generally and adversely affect the ability of mortgagors to refinance their mortgage loans. In addition, any decline in the value of securities issued by Fannie Mae and Freddie Mac may affect the value of MBS in general. With the start of a new Presidential administration in January 2021, it is unclear whether, and if so on what timeline, the new administration will address the conservatorships of the GSEs and any comprehensive housing reform.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (or CARES Act) was signed into law. Among the provisions in this wide-ranging law are protections for homeowners experiencing financial difficulties due to COVID-19, including forbearance provisions and procedures. Borrowers with federally backed mortgage loans, regardless of delinquency status, may request loan forbearance for a six-month period, which could be extended for another six-month period if necessary. Although the initial deadline to request forbearance on federally backed loans was set to expire under the CARES Act on December 31, 2020, FHFA and CFPB have announced extensions of several measures to align COVID-19 mortgage relief policies across the federal government, including additional three-month extensions of COVID-19 forbearance or payment deferral options for certain borrowers. Federally backed mortgage loans are loans secured by first- or subordinate-liens on 1-4 family residential real property, including individual units of condominiums and cooperatives, which are insured or guaranteed pursuant to certain government housing programs, such as by the Federal Housing Administration, or U.S. Department of Agriculture, or are purchased or securitized by Fannie Mae or Freddie Mac. The CARES Act also includes a temporary 60 day foreclosure moratorium that applies to federally backed mortgage loans, which lasted until July 24, 2020. However, the foreclosure moratorium has since been extended several times to at least June 30, 2021 by Fannie Mae and Freddie Mac, Federal Housing Administration and the U.S. Department of Agriculture. Various states and local jurisdictions also have imposed foreclosure moratoriums.

In December 2020, the Consolidated Appropriations Act, 2021 was signed into law, which is an Omnibus spending bill that included a second COVID-19 stimulus bill (or Second Stimulus). In addition to providing stimulus checks for individuals and families, the Second Stimulus provides for, among other things, (i) an extension of federal unemployment insurance benefits, (ii) funding to help individuals connect remotely during the pandemic, (iii) tax credits for companies offering paid sick leave and (iv) funding for vaccine distribution and development. As further described below, the Second Stimulus provided an



additional \$25 billion in tax-free rental assistance and an executive order by President Biden extended the temporary eviction moratorium promulgated by the CDC (described below) through March 31, 2021.

On September 1, 2020, the Centers for Disease Control and Prevention (or CDC) issued an order effective September 4, 2020 through December 31, 2020 temporarily halting residential evictions to prevent the further spread of COVID-19. The Second Stimulus extended the order to January 31, 2021 and, on January 20, 2021, President Joseph Biden signed an executive order that, among other things, further extended the temporary eviction moratorium promulgated by the CDC through March 31, 2021. The CDC order has since been further extended through June 30, 2021. The CDC order will likely prevent some mortgagors from evicting certain tenants who are not current on their monthly payments of rent and who qualify for relief under the CDC order, which may present a greater risk that the mortgagor will stop making monthly mortgage loan payments. The CDC order by its terms does not preempt or preclude state and local jurisdictions from more expansive orders currently in place or from imposing additional or more restrictive requirements than the CDC order to provide greater public health protection and, across the country, similar moratoriums are in place in various states and local jurisdictions to stop evictions and foreclosures in an effort to lessen the financial burden created by COVID-19. The CDC's moratorium and any other similar state moratoriums or bans could adversely impact the cash flow on mortgage loans. The Biden Administration may pass additional stimulus bills, foreclosure relief measures and may further extend foreclosure and eviction moratoriums that may continue to adversely impact the cash flow on mortgage loans.

## Results of Operations

### *Quarter Ended March 31, 2021 Compared to the Quarter Ended March 31, 2020*

#### *General*

For the first quarter of 2021, we had a net income available to our common stock and participating securities of \$77.3 million, or \$0.17 per basic and diluted common share, compared to net loss available to common stock and participating securities for the first quarter of 2020 of \$914.2 million, or \$2.02 per basic and diluted common share. This increase in net income available to common stock and participating securities primarily reflects higher Other income and a reversal of provision for credit losses on residential whole loans held at carrying value, partially offset by lower net interest income from our investments. The prior period results were significantly impacted by the unprecedented disruption in residential mortgage markets due to concerns related to COVID-19 that required management to take actions to bolster and stabilize our balance sheet, and improve our liquidity position. The actions included disposing our Agency and Legacy Non-Agency MBS portfolios, substantially reducing our investments in MSR-related assets, RPL/NPL MBS and CRT securities and sales of certain residential whole loans. These disposals resulted in net realized losses for the first quarter of 2020 totaling \$238.4 million and contributed to the reduction in net interest income from our investments in the current period. Further, during the first quarter of 2020, we recorded impairment losses on certain residential mortgage securities and MSR-related assets of \$344.3 million and also recorded impairment losses on other assets of \$75.4 million, primarily related to write-downs of the carrying values of investments in certain loan originators. During the three months ended March 31, 2020, we also incurred \$4.5 million of professional services and other costs in connection with negotiating forbearance arrangements with our lenders and recorded losses totaling \$4.3 million on terminated Swaps that had previously been designated as hedges for accounting purposes. Further, under the new accounting standard for estimating credit losses that we were required to adopt during the first quarter of 2020, we recorded a provision for credit losses on residential whole loans held at carrying value of \$74.9 million. We also recorded a valuation allowance of \$70.2 million to adjust the carrying value of certain residential whole loans to their estimated fair value as these loans were designated as being held-for-sale at March 31, 2020.

#### *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 investments. Interest rates and CPRs (which measure the amount of unscheduled principal prepayment on a bond or loan as a percentage of its unpaid 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 first quarter of 2021, our net interest spread and margin were 1.86% and 2.46%, respectively, compared to a net interest spread and margin of 1.82% and 2.20%, respectively, for the first quarter of 2020. Our net interest income decreased by \$29.9 million, or 48.49%, to \$31.8 million for the first quarter of 2021 compared to net interest income of \$61.7 million for the first quarter of 2020. For the first quarter of 2021, net interest income for our Securities, at fair value portfolio decreased by approximately \$17.3 million compared to the first quarter of 2020, primarily due to lower average amounts invested in these securities due to portfolio sales in the first and second quarters of 2020. Net interest income also includes lower net interest income from residential whole loans held at carrying value of approximately \$14.9 million for the first quarter of 2021 compared to the first quarter of 2020, primarily due to lower average amounts invested in and lower yields earned on these assets, and an increase in financing rates on our financing agreements. This was partially offset by a decrease in our average repurchase agreement borrowings to finance our residential whole loans at carrying value portfolio and lower funding costs for these assets. In addition, on January 6, 2021, we completed the redemption of our Senior Notes which resulted in lower interest expense for the first quarter of 2021 of \$1.9 million compared to the first quarter of 2020. Net interest income for the first quarter of 2021 also includes \$6.2 million of interest expense associated with residential whole loans held at fair value, reflecting a \$3.5 million decrease in borrowing costs related to these investments compared to the first quarter of 2020. Coupon interest income received from residential whole loans held 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 March 31, 2021 and 2020. 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.

(Dollars in Thousands)	Three Months Ended March 31, 2021					
	2021			2020		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
<b>Assets:</b>						
Interest-earning assets:						
Residential whole loans, at carrying value (1)	\$ 4,099,845	\$ 45,340	4.42 %	\$ 6,584,538	\$ 83,486	5.07 %
Securities, at fair value (2)(3)	295,840	16,459	22.25	4,486,660	58,581	5.22
Cash and cash equivalents	775,172	54	0.03	206,899	486	0.94
Other interest-earning assets	—	—	—	129,947	2,907	8.95
Total interest-earning assets	5,170,857	61,853	4.78	11,408,044	145,460	5.10
Total non-interest-earning assets	1,619,140			2,278,808		
Total assets	\$ 6,789,997			\$ 13,686,852		
<b>Liabilities and stockholders' equity:</b>						
Interest-bearing liabilities:						
Collateralized financing agreements (4)(5)	\$ 2,360,566	\$ 17,861	3.03 %	\$ 9,233,822	\$ 72,698	3.11 %
Securitized debt (6)	1,524,275	8,189	2.15	558,007	5,161	3.66
Convertible Senior Notes	225,285	3,909	6.94	224,071	3,888	6.94
Senior Notes	4,444	111	8.31	96,866	2,012	8.31
Total interest-bearing liabilities	4,114,570	30,070	2.92	10,112,766	83,759	3.28
Total non-interest-bearing liabilities	149,032			153,893		
Total liabilities	4,263,602			10,266,659		
Stockholders' equity	2,526,395			3,420,193		
Total liabilities and stockholders' equity	\$6,789,997			\$13,686,852		
Net interest income/net interest rate spread (7)		\$ 31,783	1.86 %		\$ 61,701	1.82 %
Net interest-earning assets/net interest margin (8)	\$ 1,056,287		2.46 %	\$ 1,295,278		2.20 %

(1) Excludes residential whole loans held at fair value that are reported as a component of total non-interest-earning assets. Includes Non-QM loans held-for-sale with a net carrying value of \$895.3 million at March 31, 2020.

(2) 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.

(3) The net yield of 22.25% includes \$8.1 million of accretion recognized on the redemption of an RPL/NPL MBS security that was purchased at a discount. Excluding this accretion, the yield reported would have been 11.26%.

(4) Collateralized financing agreements include the following: Secured term notes, Non-mark-to-market term-asset based financing, and repurchase agreements. For additional information, see Note 6, included under Item 1 of this Quarterly Report on Form 10-Q.

(5) Average cost of repurchase agreements in the prior year period includes the cost of Swaps allocated based on the proportionate share of the overall estimated weighted average portfolio duration.

(6) Includes both Securitized debt, at carrying value and Securitized debt, at fair value.

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

(8) 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.

(In Thousands)	Three Months Ended March 31, 2021 Compared to Three Months Ended March 31, 2020		
	Increase/(Decrease) due to		Total Net Change in Interest Income/Expense
	Volume	Rate	
<b>Interest-earning assets:</b>			
Residential whole loans, at carrying value <i>(1)</i>	\$ (28,497)	\$ (9,649)	\$ (38,146)
Securities, at fair value	(94,447)	52,325	(42,122)
Cash and cash equivalents	378	(810)	(432)
Other interest-earning assets	(1,454)	(1,453)	(2,907)
Total net change in income from interest-earning assets	<u>\$ (124,020)</u>	<u>\$ 40,413</u>	<u>\$ (83,607)</u>
<b>Interest-bearing liabilities:</b>			
Residential whole loan at carrying value financing agreements	\$ (23,470)	\$ (4,314)	\$ (27,784)
Residential whole loan at fair value financing agreements	(1,004)	(684)	(1,688)
Securities, at fair value repurchase agreements	(20,501)	(4,355)	(24,856)
REO financing agreements	51	52	103
Other repurchase agreements	(306)	(306)	(612)
Securitized debt	5,757	(2,729)	3,028
Convertible Senior Notes and Senior Notes	(1,608)	(272)	(1,880)
Total net change in expense from interest-bearing liabilities	<u>\$ (41,081)</u>	<u>\$ (12,608)</u>	<u>\$ (53,689)</u>
Net change in net interest income	<u>\$ (82,939)</u>	<u>\$ 53,021</u>	<u>\$ (29,918)</u>

*(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)
March 31, 2021	1.86 %	2.46 %
December 31, 2020	1.07	1.49
September 30, 2020	0.03	0.76
June 30, 2020	(0.90)	0.02
March 31, 2020	1.82	2.20

(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 Residential whole loans, at carrying value for the quarterly periods presented:

Quarter Ended	Purchased Performing Loans			Purchased Credit Deteriorated Loans			Total Residential Whole Loans, at Carrying Value		
	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)
March 31, 2021	4.31 %	2.46 %	1.85 %	5.00 %	2.86 %	2.14 %	4.42 %	2.53 %	1.89 %
December 31, 2020	4.57	2.77	1.80	5.16	3.02	2.14	4.66	2.81	1.85
September 30, 2020	4.58	3.42	1.16	4.89	3.22	1.67	4.63	3.39	1.24
June 30, 2020	5.17	6.34	(1.17)	5.07	6.03	(0.96)	5.15	6.30	(1.15)
March 31, 2020	5.10	3.44	1.66	4.84	3.39	1.45	5.07	3.43	1.64

(1) Reflects annualized interest income on Residential whole loans, at carrying value divided by average amortized cost of Residential whole loans, at carrying value. Excludes servicing costs.

(2) Reflects annualized interest expense divided by average balance of repurchase agreements and securitized debt. Total Residential whole loans, at carrying value cost of funding includes 3 basis points associated with Swaps to hedge interest rate sensitivity on these assets for the quarter ended March 31, 2020. Cost of funding for the quarter ended June 30, 2020 includes the impact of amortization of \$10.7 million of losses previously recorded in OCI related to Swaps unwound during the quarter ended March 31, 2020 that had been previously designated as hedges for accounting purposes. The amortization of these losses increased the funding cost by 116 basis points for Purchased Performing Loans, 107 basis points for Purchased Credit Deteriorated Loans, and 115 basis points for total Residential whole loans, at carrying value during the quarter ended June 30, 2020. At June 30, 2020, following the closing of certain financing transactions and our exit from forbearance arrangements, and an evaluation of our anticipated future financing transactions, \$49.9 million of unamortized losses on Swaps previously designated as hedges for accounting purposes was transferred from OCI to earnings, as it was determined that certain financing transactions that were previously expected to be hedged by these Swaps were no longer probable of occurring. In addition, cost of funding for the quarter ended June 30, 2020 was significantly higher than for prior periods as it reflects default interest and/or higher rates charged by lenders while we were under a forbearance agreement. During the quarter ended September 30, 2020, we transferred from AOCI to earnings approximately \$7.2 million of losses on Swaps that had been previously designated as hedges for accounting purposes as we had assessed that the underlying transactions were no longer probable of occurring.

(3) Reflects the difference between the net yield on average Residential whole loans, at carrying value and average cost of funds on Residential whole loans, at carrying value.

The following table presents the components of the net interest spread earned on our residential mortgage securities and MSR-related assets for the quarterly periods presented:

Quarter Ended	Securities, at fair value		
	Net Yield (1)(2)	Cost of Funding (3)	Net Interest Rate Spread (4)
March 31, 2021	22.25 %	2.02 %	20.23 %
December 31, 2020	10.15	2.69	7.46
September 30, 2020	9.80	3.49	6.31
June 30, 2020	8.20	5.81	2.39
March 31, 2020	5.22	2.53	2.69

(1) Reflects annualized interest income divided by average amortized cost. Impairment charges recorded on MSR-related assets resulted in a lower amortized cost basis which impacted the calculation of net yields in subsequent periods.

(2) The net yield of 22.25% includes \$8.1 million of accretion recognized on the redemption of an RPL/NPL MBS security that was purchased at a discount. Excluding this accretion, the yield reported would have been 11.26%.

(3) Reflects annualized interest expense divided by average balance of repurchase agreements, including the cost of Swaps allocated based on the proportionate share of the overall estimated weighted average portfolio duration and securitized debt. Agency MBS cost of funding includes 78 basis points and Legacy Non-Agency MBS cost of funding includes 52 basis points associated with Swaps to hedge interest rate sensitivity on these assets for the quarter ended March 31, 2020. Cost of funding for the quarter ended June 30, 2020 includes the impact of amortization of \$278,000 of losses previously recorded in OCI related to Swaps unwound during the quarter ended March 31, 2020 that had been previously designated as hedges for accounting purposes. The amortization of these losses increased the funding cost by 174 basis points for total RPL/NPL MBS during the quarter ended June 30, 2020. At June 30, 2020, following the closing of certain financing transactions and our exit from forbearance arrangements, and an evaluation of our anticipated future financing transactions, \$49.9 million of unamortized losses on Swaps previously designated as hedges for accounting purposes was transferred from OCI to earnings, as it was determined that certain financing transactions that were previously expected to be hedged by these Swaps were no longer probable of occurring. In addition, during the quarter ended September 30, 2020, we transferred from AOCI to earnings approximately \$7.2 million of losses on Swaps that had been previously designated as hedges for accounting purposes as we had assessed that the underlying transactions were no longer probable of occurring.

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

#### Interest Income

Interest income on our residential whole loans held at carrying value decreased by \$38.1 million, or 45.7%, for the first quarter of 2021, to \$45.3 million compared to \$83.5 million for the first quarter of 2020. This decrease primarily reflects a \$2.5 billion decrease in the average balance of this portfolio to \$4.1 billion for the first quarter of 2021 from \$6.6 billion for the first quarter of 2020 and a decrease in the yield (excluding servicing costs) to 4.42% for the first quarter of 2021 from 5.07% for the first quarter of 2020.

Due to the previously discussed asset sales and impairment charges, the average amortized cost of our Securities, at fair value portfolio decreased \$4.2 billion to \$295.8 million for the first quarter of 2021 from \$4.5 billion for the first quarter of 2020 and interest income on our Securities, at fair value portfolio decreased \$42.1 million to \$16.5 million for the first quarter of 2021 from \$58.6 million for the first quarter of 2020. The net yield on our Securities, at fair value was 22.25% for the first quarter of 2021, compared to 5.22% for the first quarter 2020. The increase in the net yield on our Securities, at fair value portfolio primarily reflects accretion income of approximately \$8.1 million recognized in the current quarter due to the redemption of a security that had been previously purchased at a discount.

#### Interest Expense

Our interest expense for the first quarter of 2021 decreased by \$53.7 million, or 64.1%, to \$30.1 million, from \$83.8 million for the first quarter of 2020. This decrease primarily reflects a decrease in our average repurchase agreement borrowings to finance our residential mortgage asset portfolio partially offset by an increase in financing rates on our financing agreements. On January 6, 2021, we completed the redemption of our Senior Notes, which resulted in lower interest expense for the first quarter of 2021 of \$1.9 million compared to the first quarter of 2020. The effective interest rate paid on our borrowings decreased to 2.92% for the first quarter of 2021, from 3.28% for the first quarter of 2020.

*Provision for Credit and Valuation Losses on Residential Whole Loans Held at Carrying Value and Other Financial Instruments*

For the first quarter of 2021, we recorded a reversal of provision for credit losses on residential whole loans held at carrying value of \$22.8 million (which includes a reversal of provision for credit losses on undrawn commitments of \$378,000) compared to a provision of \$150.7 million for the first quarter of 2020. The reversal for the period primarily reflects an adjustment to certain macro-economic inputs to our loan loss estimates and lower loan balances. As previously discussed, on January 1, 2020, we adopted the new accounting standard addressing the measurement of CECL. With respect to our residential whole loans held at carrying value and other financial instruments, CECL requires that reserves for credit losses are estimated at the reporting date based on expected cash flows over the life of the loan or financial instrument, including anticipated prepayments and reasonable and supportable forecasts of future economic conditions.

*Other Income/(Loss), net*

For the first quarter of 2021, Other Income, net increased by \$844.3 million, to \$53.5 million compared to a \$790.8 million loss for the first quarter of 2020. The components of Other Income/(Loss), net for the first quarter of 2021 and 2020 are summarized in the table below:

(In Thousands)	Quarter Ended March 31,	
	2021	2020
Net gain/(loss) on residential whole loans measured at fair value through earnings	\$ 49,809	\$ (52,760)
Liquidation gains on Purchased Credit Deteriorated Loans and other loan related income	1,248	1,429
Impairment and other losses on securities available-for-sale and other assets	—	(419,651)
Net unrealized gain/(loss) on securities, at fair value measured at fair value through earnings	101	(77,961)
Net realized gain on sales of securities, at fair value	—	(238,380)
Other	2,359	(3,440)
<b>Total Other Income/(Loss), net</b>	<b>\$ 53,517</b>	<b>\$ (790,763)</b>

*Operating and Other Expense*

For the first quarter of 2021, we had compensation and benefits and other general and administrative expenses of \$15.2 million, or 2.41% of average equity, compared to \$13.5 million, or 1.58% of average equity, for the first quarter of 2020. Compensation and benefits expense decreased by approximately \$462,000 to \$8.4 million for the first quarter of 2021, compared to \$8.9 million for the first quarter of 2020, primarily reflecting the reduction in workforce that occurred in the third quarter of 2020 partially offset by higher expense in connection with long-term incentive awards in the current year period. Our other general and administrative expenses increased by \$2.2 million to \$6.8 million for the quarter ended March 31, 2021, compared to \$4.6 million for the first quarter of 2020, primarily due to higher costs associated with deferred compensation to Directors in the current year period, which were impacted by the changes in our stock price, higher costs for corporate insurance, systems consulting, administrative expenses associated with financing arrangements and the write-off of certain deferred financing costs, partially offset by a decrease in provision for income taxes, and lower information technology costs associated with data and analytical tools. In addition, during the first quarter of 2020, we also incurred professional service and other costs of \$4.5 million related to negotiating forbearance arrangements with our lenders entering into new financing arrangements and reinstating prior financing arrangements on the exit from forbearance.

Operating and Other Expense for the first quarter of 2021 also includes \$7.3 million of loan servicing and other related operating expenses related to our residential whole loan activities. These expenses decreased compared to the prior year period by approximately \$4.0 million, or 35.3%, primarily due to lower servicing fees and non-recoverable advances on our residential whole loan and REO portfolios, partially offset by costs related to loan securitization activities.

*Selected Financial Ratios*

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

<b>At or for the Quarter Ended</b>	<b>Return on Average Total Assets (1)</b>	<b>Return on Average Total Stockholders' Equity (2)(3)</b>	<b>Total Average Stockholders' Equity to Total Average Assets (4)</b>	<b>Dividend Payout Ratio (5)</b>	<b>Leverage Multiple (6)</b>	<b>Book Value per Share of Common Stock (7)</b>	<b>Economic Book Value per Share of Common Stock (8)</b>
March 31, 2021	4.55 %	13.54 %	37.21 %	0.44	1.6	\$ 4.63	\$ 5.09
December 31, 2020	2.12	7.24	35.72	0.94	1.7	4.54	4.92
September 30, 2020	4.17	13.85	33.23	0.29	1.9	4.61	4.92
June 30, 2020	4.33	15.70	30.08	—	2.0	4.51	4.46
March 31, 2020	(26.72)	(26.58)	24.99	—	3.4	4.34	4.09

(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) For the quarter ended March 31, 2020, the amount calculated reflects the quarterly net income divided by average total stockholders' equity.

(4) Reflects total average stockholders' equity divided by total average assets.

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

(6) Represents the sum of our borrowings under financing agreements and payable for unsettled purchases divided by stockholders' equity.

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

(8) "Economic book value" is a non-GAAP financial measure of our financial position. To calculate our Economic book value, our portfolios of Residential whole loans, at carrying value are adjusted to their fair value, rather than the carrying value that is required to be reported under the GAAP accounting model applied to these loans. For additional information please refer to page 71 under the heading "Economic Book Value."



## Reconciliation of GAAP and Non-GAAP Financial Measures

### Economic Book Value

“Economic book value” is a non-GAAP financial measure of our financial position. To calculate our Economic book value, our portfolios of Residential whole loans at carrying value are adjusted to their fair value, rather than the carrying value that is required to be reported under the GAAP accounting model applied to these loans. This adjustment is also reflected in the table below in our end of period stockholders’ equity. Management considers that Economic book value provides investors with a useful supplemental measure to evaluate our financial position as it reflects the impact of fair value changes for all of our residential mortgage investments, irrespective of the accounting model applied for GAAP reporting purposes. Economic book value does not represent and should not be considered as a substitute for Stockholders’ Equity, as determined in accordance with GAAP, and our calculation of this measure may not be comparable to similarly titled measures reported by other companies.

The following table provides a reconciliation of our GAAP book value per common share to our non-GAAP Economic book value per common share as of the quarterly periods below:

<b>(In Thousands, Except Per Share Amounts)</b>	<b>March 31, 2021</b>	<b>December 31, 2020</b>	<b>September 30, 2020</b>	<b>June 30, 2020</b>	<b>March 31, 2020</b>
GAAP Total Stockholders’ Equity	\$ 2,542.3	\$ 2,524.8	\$ 2,565.7	\$ 2,521.1	\$ 2,440.7
Preferred Stock, liquidation preference	(475.0)	(475.0)	(475.0)	(475.0)	(475.0)
GAAP Stockholders’ Equity for book value per common share	2,067.3	2,049.8	2,090.7	2,046.1	1,965.7
Adjustments:					
Fair value adjustment to Residential whole loans, at carrying value	203.0	173.9	141.1	(25.3)	(113.5)
Stockholders’ Equity including fair value adjustment to Residential whole loans, at carrying value (Economic book value)	\$ 2,270.3	\$ 2,223.7	\$ 2,231.8	\$ 2,020.8	\$ 1,852.2
GAAP book value per common share	\$ 4.63	\$ 4.54	\$ 4.61	\$ 4.51	\$ 4.34
Economic book value per common share	\$ 5.09	\$ 4.92	\$ 4.92	\$ 4.46	\$ 4.09
Number of shares of common stock outstanding	446.1	451.7	453.3	453.2	453.1

## Recent Accounting Standards to Be Adopted in Future Periods

None that we expect would materially impact us.

## 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, to meet margin calls 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, depository shares representing preferred stock, warrants, debt securities, rights and/or units pursuant to our automatic shelf registration statement and, at March 31, 2021, we had approximately 8.6 million shares of common stock available for issuance pursuant to our DRSPS shelf registration statement. During the three months ended March 31, 2021, we issued 105,272 shares of common stock through our DRSPS, raising net proceeds of approximately \$388,173. During the three months ended March 31, 2021, we did not sell any shares of common stock through our at-the-market equity offering program.

During the three months ended March 31, 2021, we repurchased 5,946,678 shares of our common stock through the stock repurchase program at an average cost of \$4.09 per share and a total cost of approximately \$24.3 million, net of fees and commissions paid to the sales agents of approximately \$59,000. At March 31, 2021, approximately \$141.4 million remained outstanding for future repurchases under the repurchase program.

### *Financing agreements*

Our borrowings under financing agreements include a combination of shorter term and longer arrangements. Certain of these arrangements are collateralized directly by our residential mortgage investments or otherwise have recourse to us, while securitized debt financing is non-recourse financing. Further, certain of our financing agreements contain terms that allow the lender to make margin calls on us based on changes in the value of the underlying collateral securing the borrowing. As of March 31, 2021, we had \$1.2 billion of total unpaid principal balance related to asset-backed financing agreements with mark-to-market collateral provisions and \$2.6 billion of total unpaid principal balance related to asset-backed financing agreements that do not include mark-to-market collateral provisions. Repurchase agreements and other forms of collateralized financing are 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 (or the percentage amount by which the collateral value is contractually required to exceed the loan amount), 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. Other non-repurchase agreement financing arrangements also contain provisions governing collateral maintenance.

With respect to margin maintenance requirements for agreements secured by harder to value assets, such as residential whole loans, Non-Agency MBS and MSR-related assets, 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 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. If this is not successful, 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 certain 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. For additional information regarding our various types of financing arrangements, including those of with non-mark-to-market terms and the haircuts for those agreements with mark-to-market collateral provisions, see Note 6, included under Item 1 of this Quarterly Report on Form 10-Q.

We expect that we will continue to pledge residential mortgage assets as part of certain of our ongoing financing arrangements. When the value of our residential mortgage assets pledged as collateral experiences rapid decreases, margin calls under our financing arrangements could materially increase, causing an adverse change in our liquidity position. Additionally, if one or more of our financing counterparties choose not to provide ongoing funding, our ability to finance our long-maturity assets would decline or otherwise become available on possibly less advantageous terms. Further, when liquidity tightens, our counterparties to our short term arrangements with mark-to-market collateral provisions may increase their required collateral cushion (or margin) requirements on new financings, including financings that we roll with the same counterparty, thereby reducing our ability to use leverage. Access to financing may also be negatively impacted by ongoing volatility in financial markets, thereby potentially adversely impacting our current or future lenders' ability or willingness to provide us with financing. In addition, there is no assurance that favorable market conditions will exist to permit us to consummate additional securitization transactions if we determine to seek that form of financing.

Our ability to meet future margin calls will be affected by our ability to use cash or obtain financing from unpledged collateral, the amount of 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 March 31, 2021, we had a total of \$3.8 billion of residential whole loans and securities and \$5.2 million of restricted cash pledged to our financing counterparties. At March 31, 2021, we had access to various sources of liquidity including \$780.7 million of cash and cash equivalents. Our sources of liquidity do not include restricted cash. In addition, at March 31, 2021, we had \$73.9 million of unencumbered residential whole loans. Further, we believe that we have unused capacity in certain borrowing lines, given that the amount currently borrowed is less than the maximum advance rate permitted by the facility. This unused capacity serves to act as a buffer against potential margin calls on certain pledged assets in the events that asset prices do not decline by more than a specified amount.

The table below presents certain information about our borrowings under asset-backed financing agreements and securitized debt:

Quarter Ended (1)	Asset-backed Financing Agreements			Securitized Debt		
	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)						
March 31, 2021	\$ 2,362,791	\$ 2,221,570	\$ 2,443,149	\$ 1,535,995	\$ 1,548,920	\$ 1,602,148
December 31, 2020	2,833,649	2,497,290	2,823,306	1,202,292	1,514,509	1,514,509
September 30, 2020	3,511,453	3,217,678	3,613,968	610,120	837,683	837,683
June 30, 2020	4,736,610	3,692,845	5,024,926	538,245	516,102	541,698
March 31, 2020	9,233,808	7,768,180	9,486,555	558,007	533,733	594,458

(1) The information presented in the table above excludes \$230.0 million of Convertible Senior Notes issued in June 2019 and \$100.0 million of Senior Notes issued in April 2012. The outstanding balance of the Convertible Senior Notes have been unchanged since issuance. During the first quarter of 2021, we redeemed all our outstanding Senior Notes.

*Cash Flows and Liquidity for the Three Months Ended March 31, 2021*

Our cash, cash equivalents and restricted cash decreased by \$35.7 million during the three months ended March 31, 2021, reflecting: \$345.5 million provided by our investing activities, \$405.3 million used in our financing activities and \$24.2 million provided by our operating activities.

At March 31, 2021, our debt-to-equity multiple was 1.6 times compared to 1.7 times at December 31, 2020. At March 31, 2021, we had borrowings under asset-backed financing agreements of \$2.2 billion, of which \$2.0 billion were secured by residential whole loans, \$200.7 million were secured by securities and \$17.8 million were secured by REO. In addition, at March 31, 2021, we had securitized debt of \$1.5 billion in connection with our loan securitization transactions. At December 31, 2020, we had borrowings under asset-backed financing agreements of \$2.5 billion, of which \$2.3 billion were secured by residential whole loans, \$213.9 million were secured by securities and \$13.7 million were secured by REO. In addition, at December 31, 2020, we had securitized debt of \$1.5 billion in connection with our loan securitization transactions.

During the three months ended March 31, 2021, \$345.5 million was provided by our investing activities. We paid \$184.7 million for purchases of residential whole loans, loan related investments and capitalized advances. During the three months ended March 31, 2021, we received \$425.3 million of principal payments on residential whole loans and loan related investments and \$50.6 million of proceeds on sales of REO. In addition, during the three months ended March 31, 2021, we received cash of \$58.9 million from prepayments and scheduled amortization on our securities.

In connection with our repurchase agreement financings and Swaps (if any), 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 assets; (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 assets 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 (1) (In Thousands)	Collateral Pledged to Meet Margin Calls			Cash and Securities Received for Reverse Margin Calls	Net Assets Received/(Pledged) for Margin Activity
	Fair Value of Securities Pledged	Cash Pledged	Aggregate Assets Pledged For Margin Calls		
March 31, 2021	\$ —	\$ —	\$ —	\$ —	\$ —
December 31, 2020	—	2,004	2,004	—	(2,004)
September 30, 2020	—	2,526	2,526	2,199	(327)
June 30, 2020	—	108,999	108,999	322,682	213,683
March 31, 2020	30,187	213,392	243,579	67,343	(176,236)

(1) Excludes variation margin payments on the Company's cleared Swaps which are treated as a legal settlement of the exposure under the Swap contract.

We are subject to various financial covenants under our financing agreements, which include minimum liquidity and net worth requirements, net worth decline limitations and maximum debt-to-equity ratios. We were in compliance with all financial covenants as of March 31, 2021.

During the three months ended March 31, 2021, we paid \$34.0 million for cash dividends on our common stock and dividend equivalents and paid cash dividends of \$8.2 million on our preferred stock. On March 12, 2021, we declared our first quarter 2021 dividend on our common stock of \$0.075 per share; on April 30, 2021, we paid this dividend, which totaled approximately \$33.6 million, including dividend equivalents of approximately \$120,000.

### **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 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.

In general, when interest rates change, borrowing costs on our financing agreements will 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 may 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.

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. For certain residential whole loans that were purchased as re-performing loans, 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 these 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-QM loans and Single-family rental loans are typically dependent on the value of the underlying real estate collateral, as well as the level of interest rates. Because these loans are primarily newly or recently originated performing loans, we believe these investments exhibit positive duration. Given the short duration of our Rehabilitation loans, we believe the fair value of these loans exhibits little sensitivity to changes in interest rates. We estimate the duration of these Purchased Performing Loans held at carrying value using management's assumptions.

The fair value of our non-performing residential whole loans is typically 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 typically 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 financing transactions. While use of such derivatives does 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.

The interest rates for the vast majority of our investments, financings and hedging transactions are either explicitly or indirectly based on LIBOR. On March 5, 2021, the IBA Benchmark Administration confirmed its intention to cease publication of (i) one week and two month USD LIBOR settings after December 31, 2021 and (ii) the remaining USD LIBOR settings after June 30, 2023. At present, it is not possible to predict the effect of such change, including the establishment of potential alternative reference rates, on the economy or markets we are active in either currently or in the future, or on any of our assets or liabilities whose interest rates are based on LIBOR. We are in the process of evaluating the potential impact of a discontinuation of LIBOR on our portfolio, as well as the related accounting impact. However, we expect that in the near term, we will work closely with the Trustee companies and/or other entities that are involved in calculating the interest rates for our residential mortgage securities and securitized debt, our loan servicers for our hybrid and floating rate loans, and with the various counterparties to our financing and hedging transactions in order to determine what changes, if any, are required to be made to existing agreements for these transactions.

## 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 (if any), over the next 12 months based on the assets in our investment portfolio at March 31, 2021. 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 March 31, 2021.

Change in Interest Rates (Dollars in Thousands)	Estimated Value of Assets (1)	Estimated Value of Securitized and Other Fixed Rate Debt	Estimated Value of Financial Instruments	Change in Estimated Value	Percentage Change in Net Interest Income	Percentage Change in Portfolio Value
+100 Basis Point Increase	\$ 6,562,519	\$ 32,706	\$ 6,595,225	\$ (119,154)	6.68 %	(1.77)%
+ 50 Basis Point Increase	\$ 6,645,859	\$ 14,661	\$ 6,660,520	\$ (53,859)	3.29 %	(0.80)%
Actual at March 31, 2021	\$ 6,717,763	\$ (3,384)	\$ 6,714,379	\$ —	— %	— %
- 50 Basis Point Decrease	\$ 6,778,232	\$ (21,430)	\$ 6,756,802	\$ 42,423	(3.49)%	0.63 %
-100 Basis Point Decrease	\$ 6,827,264	\$ (39,475)	\$ 6,787,789	\$ 73,410	(7.73)%	1.09 %

(1) Such assets include residential whole loans and REO, MBS and CRT securities, 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 March 31, 2021. 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 Securities Act and Section 21E of the Exchange 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 (if any) and securitized and other fixed rate debt (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 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 March 31, 2021, 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 assets purchased at a premium and discount accretion on assets purchased at a discount 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 March 31, 2021, the impact on portfolio value was approximated using estimated net effective duration (i.e., the price sensitivity to changes in interest rates), including the effect of securitized and other fixed rate debt, of 1.43 which is the weighted average of 2.46 for our Residential whole loans, 0.76 for our Non-Agency investments, (2.05) for our securitized debt, and other fixed rate debt, and 0.05 for our 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 (0.68), which is the weighted average of (0.87) for our Residential whole loans, zero for our securitized and other fixed rate debt, zero for our Non-Agency MBS and zero for our 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. 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

We are exposed to credit risk through our credit sensitive residential mortgage investments, in particular residential whole loans and CRT securities and to a lesser extent our investments in MSR-related assets and RPL/NPL MBS. Our primary credit risk currently relates to our residential whole loans.

Our exposure to credit risk from our credit sensitive investments is discussed in more detail below:

### Residential Whole Loans

We are exposed to credit risk from our investments in residential whole loans. Our investment process for non-performing and Purchased Credit Deteriorated Loans is focused on quantifying and pricing credit risk. Non-Performing and Purchased Credit Deteriorated Loans are acquired at purchase prices that are generally discounted 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 we generally own the mortgage-servicing rights associated with these loans, 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 delinquencies and defaults on these loans 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.

Credit risk on Purchased Performing Loans is mitigated through our process to underwrite the loan before it is purchased and includes an assessment of the borrower's financial condition and ability to repay the loan, nature of the collateral and relatively low LTV, including after-repair LTV for the majority of our Rehabilitation loans.

The following table presents certain information about our Residential whole loans, at carrying value at March 31, 2021:

(Dollars in Thousands)	Purchased Performing Loans		Purchased Credit Deteriorated Loans		Total
	Loans with an LTV:		Loans with an LTV:		
	80% or Below	Above 80%	80% or Below	Above 80%	
Amortized cost	\$ 3,175,471	\$ 112,218	\$ 424,214	\$ 220,398	\$ 3,932,301
Unpaid principal balance (UPB)	\$ 3,122,040	\$ 112,926	\$ 472,698	\$ 279,061	\$ 3,986,725
Weighted average coupon (1)	6.0 %	6.4 %	4.4 %	4.6 %	5.7 %
Weighted average term to maturity (months)	287	331	271	309	288
Weighted average LTV (2)	62.8 %	87.5 %	56.5 %	107.3 %	65.8 %
Loans 90+ days delinquent (UPB)	\$ 291,195	\$ 12,028	\$ 72,443	\$ 70,407	\$ 446,073

(1) Weighted average is calculated based on the interest bearing principal balance of each loan within the related category. For loans acquired with servicing rights released by the seller, interest rates included in the calculation do not reflect loan servicing fees. For loans acquired with servicing rights retained by the seller, interest rates included in the calculation are net of servicing fees.

(2) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling \$151.7 million, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. The LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting, is 68%. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots, for which the LTV ratio is not meaningful.

The following table presents the five largest geographic concentrations by state of our residential whole loan portfolio at March 31, 2021:

<b>Property Location</b>	<b>Percent of Interest-Bearing Unpaid Principal Balance</b>
California	34.3 %
Florida	13.4 %
New York	8.0 %
New Jersey	5.4 %
Texas	3.2 %

#### ***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.

##### ***CRT Securities***

We are exposed to potential credit losses from our investments in CRT securities issued by or sponsored by Fannie Mae and Freddie Mac. While CRT securities are issued by or sponsored by these GSEs, payment of principal on these securities is not guaranteed. As an investor in a CRT security, we may incur a loss if losses on the mortgage loans in the reference pool exceed the credit enhancement on the underlying CRT security owned by us or if an actual pool of loans experience losses. We assess the credit risk associated with our investments in CRT securities by assessing the current and expected future performance of the associated loan pool.

##### ***RPL/NPL MBS***

These securities are backed by re-performing and non-performing loans, were purchased primarily at prices around par and represent the senior and mezzanine 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.

##### ***Credit Spread Risk***

Credit spreads measure the additional yield demanded by investors in financial instruments based on the credit risk associated with an instrument relative to benchmark interest rates. They are impacted by the available supply and demand for instruments with various levels of credit risk. Widening credit spreads would result in higher yields being required by investors in financial instruments. Credit spread widening generally results in lower values of the financial instruments we hold at that time, but will generally result in a higher yield on future investments with similar credit risk. It is possible that the credit spreads on our assets and liabilities, including hedges, will not always move in tandem. Consequently, changes in credit spreads can result in volatility in our financial results and reported book value.



## **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. This risk was particularly pronounced during the first quarter of 2020, as conditions created by COVID-19 resulted in us receiving an usually high number of margin calls, negatively impacting our overall liquidity and ultimately leading us to enter into the Forbearance Agreements.

We pledge residential mortgage assets and cash to secure our financing agreements. Our financing agreements with mark-to-market collateral provisions require us to pledge additional collateral in the event the market value of the assets pledged decreases, in order maintain the lenders contractually specified collateral cushion, which is measured as the difference between the loan amount and the market value of the asset pledged as collateral. 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. Further, when liquidity tightens, our repurchase agreement counterparties may increase our collateral cushion (or margin) requirements on new financings, including repurchase agreement borrowings that we roll with the same counterparty, reducing our ability to use leverage.

At March 31, 2021, we had access to various sources of liquidity including \$780.7 million of cash and cash equivalents. Our sources of liquidity do not include restricted cash. In addition, at March 31, 2021 we had \$73.9 million of unencumbered residential whole loans. Further, we believe that we have unused capacity in certain borrowing lines, given that the amount currently borrowed is less than the maximum advance rate permitted by the facility. This unused capacity serves to act as a buffer against potential margin calls on certain pledged assets in the events that asset prices do not decline by more than a specified amount.

## **Prepayment Risk**

Premiums arise when we acquire an MBS or loan at a price in excess of the aggregate principal balance of the mortgages securing the MBS (i.e., par value) or when we acquire residential whole loans at a price in excess of their aggregate principal balance. Conversely, discounts arise when we acquire an MBS or loan 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 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 Non-QM loans and certain CRT securities, are amortized against interest income over the life of the investment 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 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 credit loss reserves may result.

In addition, increased prepayments are generally associated with decreasing market interest rates as borrowers are able to refinance their mortgages at lower rates. Therefore, increased prepayments on our investments may accelerate the redeployment of our capital to generally lower yielding investments. Similarly, decreased prepayments are generally associated with increasing market interest rates and may slow our ability to redeploy capital to generally higher yielding investments.

#### **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 Exchange Act) that are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange 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 March 31, 2021, of the design and operation of the Company's disclosure controls and procedures. Based on that review and evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's current disclosure controls and procedures, as designed and implemented, were effective as of March 31, 2021. 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 March 31, 2021 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, 2020 (the "2020 Form 10-K"). There are no material changes from the risk factors set forth in the 2020 Form 10-K. However, the risks and uncertainties that the Company faces are not limited to those set forth in the 2020 Form 10-K. 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

On November 2, 2020, the Company's Board authorized a share repurchase program under which the Company may repurchase up to \$250 million of its outstanding common stock through the end of 2022. The Board's authorization replaces the authorization under the repurchase program that was adopted in December 2013.

The stock repurchase program does not require the purchase of any minimum number of shares. Subject to applicable securities laws, repurchases of common stock under the repurchase program may be made at times and in amounts as the Company deems appropriate, using available cash resources. The timing and extent to which the Company repurchases its shares will depend upon, among other things, market conditions, share price, liquidity, regulatory requirements and other factors, and repurchases may be commenced or suspended at any time without prior notice. Acquisitions under the share repurchase program may be made in the open market, through privately negotiated transactions or block trades or other means, in accordance with applicable securities laws (including, in the Company's discretion, through the use of one or more plans adopted under Rule 10b-5-1 promulgated under the Exchange Act). 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.

During the three months ended March 31, 2021, the Company repurchased 5,946,678 shares of its common stock through the stock repurchase program at an average cost of \$4.09 per share and a total cost of approximately \$24.3 million, net of fees and commissions paid to the sales agent of approximately \$59,000. At March 31, 2021, approximately \$141.4 million remained outstanding for future repurchases under the repurchase program.

The following table presents information with respect to (i) shares of common stock repurchased by the Company under the stock repurchase program and (ii) restricted shares withheld (under the terms of grants under our Equity Compensation Plan (or Equity Plan)) to offset tax withholding obligations that occur upon the vesting and release of restricted stock awards and/or restricted stock units (or RSUs) and (iii) approximate dollar value for repurchase under the stock repurchase program during the first quarter of 2021:

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	Approximate Dollar Value that May Yet be Purchased Under the Repurchase Program or Employee Plan
<b>January 1-31, 2021:</b>				
Shares Repurchased (2)	—	—	—	\$ 165,655,435
Employee Transactions (3)	213,123	\$ 3.75	N/A	N/A
<b>February 1-28, 2021:</b>				
Shares Repurchased (2)	—	—	—	\$ 165,655,435
Employee Transactions (3)	—	—	N/A	N/A
<b>March 1-31, 2021:</b>				
Shares Repurchased (2)	5,946,678	\$ 4.09	5,946,678	\$ 141,381,030
Employee Transactions (3)	—	—	N/A	N/A
<b>Total Shares Repurchased (2)</b>	<b>5,946,678</b>	<b>\$ 4.09</b>	<b>5,946,678</b>	<b>\$ 141,381,030</b>
<b>Employee Transactions (3)</b>	<b>213,123</b>	<b>\$ 3.75</b>	<b>N/A</b>	<b>N/A</b>

(1) Includes brokerage commissions.

(2) As of March 31, 2021, the Company had repurchased an aggregate approximate dollar value of \$108.6 million under the Repurchase Program.

(3) Our Equity Plan provides that the value of the shares delivered or withheld be based on the price of our common stock on the date the relevant transaction occurs. These shares were withheld in January 2021.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

None.

### Item 5. Other Information

On May 5, 2021, the Company entered into separate amended and restated agreements (together, the “Agreements”) with each of Stephen D. Yarad, Chief Financial Officer, Treasurer and Chief Accounting Officer of the Company, and Harold E. Schwartz, Senior Vice President, General Counsel and Secretary of the Company (each an “Executive”), regarding the payment of severance and other benefits to either Executive in circumstances where his employment is terminated by MFA without Cause (as such term is defined in the Agreements) or he resigns for Good Reason (as such term is defined in the Agreements). The Agreements amend and restate the agreements entered into between the Company and each Executive as of May 6, 2020. The Agreements generally provide for severance protection under these circumstances that is consistent with the severance protection provided to the Company’s other most highly compensated senior executives. More specifically, in such circumstances, subject to the applicable Executive’s execution of a release of claims against MFA and its affiliates, the Executive will be entitled to the following:

(A) aggregate cash equal to the greater of (i) the sum of (a) his annual base salary and (b) the median of the annual bonuses received by the Executive for the three (3) preceding years, which will be payable to him in a lump sum not later than 60 days following the date of termination of employment and (ii) 200% of his annual base salary; and

(B) immediate vesting of all outstanding unvested time-based equity awards; and

(C) immediate vesting in a pro-rata portion of the target value of any unvested performance-based equity awards. The pro-rata portion shall be equal to the product of (i) the target value of such award, and (ii) a fraction, the numerator of which is the number of days during the performance period that would have elapsed as of the anniversary of the date of grant of such

award next following the date of termination of employment (but not beyond the end of the applicable performance period), and the denominator of which is the number of days in the performance period; and

(D) reimbursement for 100% of the COBRA premiums incurred by the Executive for himself and his eligible dependents under the Company's health care plan during the 12-month period following the date of termination of employment; and

(E) any accrued but unpaid base salary and any other amounts earned, accrued or owing but not yet paid to the Executive and any other benefits in accordance with the terms of any applicable plans and programs of the Company.

Each of the Agreements shall remain in effect until terminated in writing by each of MFA and the Executive.

In addition, each of the Agreement provides that if any payments or benefits provided to the Executive would constitute excess parachute payments within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and would be subject to the excise tax imposed under Section 4999 of the Code, the payments or benefits will be reduced by the amount required to avoid the excise tax, if such reduction would give the Executive a better after-tax result than if he received the full payments and benefits and paid the excise tax. Each of the Agreements also contains customary confidentiality and non-solicitation covenants, as well as other terms customary for agreements applicable to senior executives.

#### **Item 6. Exhibits**

Exhibits required by Item 601 of Regulation S-K.

**EXHIBIT INDEX**

The following exhibits are filed as part of this Quarterly Report. The exhibit numbers followed by an asterisk (\*) indicate exhibits electronically filed herewith. All other exhibit numbers indicate exhibits previously filed and are hereby incorporated herein by reference.

<b>Exhibit</b>	<b>Description</b>
<a href="#">10.1</a>	Amended and Restated Employment Agreement, entered into as of February 22, 2021, by and between the Company and Craig L. Knutson (incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-K for the year ended December 31, 2020 (Commission File No. 1-13991)).
<a href="#">10.2</a>	Amended and Restated Employment Agreement, entered into as of February 22, 2021, by and between the Company and Gudmundur Kristjansson (incorporated herein by reference to Exhibit 10.4 to the Company's Form 10-K for the year ended December 31, 2020 (Commission File No. 1-13991)).
<a href="#">10.3</a>	Amended and Restated Employment Agreement, entered into as of February 22, 2021, by and between the Company and Bryan Wulfsohn (incorporated herein by reference to Exhibit 10.6 to the Company's Form 10-K for the year ended December 31, 2020 (Commission File No. 1-13991)).
<a href="#">10.4*</a>	Amended and Restated Agreement, entered into as of May 5, 2021, by and between the Company and Stephen D. Yarad.
<a href="#">10.5*</a>	Amended and Restated Agreement, entered into as of May 5, 2021, by and between the Company and Harold E. Schwartz.
<a href="#">31.1*</a>	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.
<a href="#">31.2*</a>	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.
<a href="#">32.1*</a>	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.
<a href="#">32.2*</a>	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.
<b>101</b>	Interactive Data Files pursuant to Rule 405 of Regulation S-T formatted in iXBRL (Inline Extensible Business Reporting Language): (i) our Consolidated Balance Sheets as of March 31, 2021 (Unaudited) and December 31, 2020; (ii) our Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2021 and 2020; (iii) our Consolidated Statements of Comprehensive Income / (Loss) (Unaudited) for the three months ended March 31, 2021 and 2020; (iv) Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the three months ended March 31, 2021 and 2020; (v) our Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2021 and 2020; and (vi) the notes to our Unaudited Consolidated Financial Statements.
<b>104</b>	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

**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: May 6, 2021

MFA FINANCIAL, INC.  
(Registrant)

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

AMENDED AND RESTATED AGREEMENT

THIS AMENDED AND RESTATED AGREEMENT (this "Agreement") is entered into and effective this 5th day of May, 2021 (the "Effective Date"), by and between Stephen D. Yarad ("Executive") and MFA Financial, Inc. ("MFA" or the "Company") and amends and restates the agreement entered into as of May 6, 2020 (the "May 2020 Agreement"), between Executive and the Company.

WHEREAS, the Company and Executive entered into the May 2020 Agreement to reflect their understanding with respect to termination benefits to be provided in the event of a qualifying termination of Executive's employment as set forth therein; and

WHEREAS, MFA and the Executive desire to amend certain terms of the May 2020 Agreement and enter into an amended and restated agreement that supersedes and replaces the May 2020 Agreement in all respects as of the Effective Date.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and intending to be legally bound hereby, the parties agree as follows:

1. Qualifying Termination of Employment.

(a) Termination by the Company Without Cause or by Executive for Good Reason. In the event Executive's employment with the Company is terminated by the Company without Cause or by Executive for Good Reason (and not, for the avoidance of doubt, in connection with a termination of employment on account of death or disability), Executive shall be entitled to receive the severance benefits described below, subject to Section 1(e):

(i) Executive shall receive a lump sum cash payment of an amount equal to the greater of (A) the sum of (I) Executive's annual base salary in effect immediately before the Termination Date (as defined in Section 2) without regard to any adjustments constituting Good Reason, if applicable, and (II) the median of the annual bonuses paid to the Executive for the three calendar years preceding the Termination Date and (B) 200% of Executive's annual base salary in effect immediately before the Termination Date. Such payment shall be made as soon as practicable following the effective date of the Release (as defined below) but no later than the 60th day after the Termination Date.

(ii) The Company shall reimburse Executive for 100% of the COBRA premiums incurred by Executive for Executive and his eligible dependents under the Company's health care plan during the 12 month period following the Termination Date. Such reimbursements shall be provided on the payroll date immediately following the date on which Executive remits the applicable premium payment and shall commence within 60 days after the Termination Date; provided that the first payment shall include



any reimbursements that would have otherwise been payable during the period beginning on the Termination Date and ending on the date of the first reimbursement payment. Reimbursement payments shall be treated as taxable compensation to Executive to the extent required by law.

(iii) Notwithstanding the terms of any equity-award agreements (whether granted prior to or following the Effective Date), all of Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares and restricted stock units) shall be treated in accordance with the following:

(A) Except as otherwise provided in (B) below, all unvested awards shall immediately vest and be distributed or otherwise settled as soon as practicable following the effective date of the Release but no later than 60 days following the Termination Date.

(B) Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award; provided that the equity award shall vest no less favorably than the following: as of the Termination Date, the Executive shall vest in a pro-rata portion of the target value of such award. The pro-rata portion shall be equal to the product of (I) the target value of such award, and (II) a fraction, the numerator of which is the number of days during the performance period that would have elapsed as of the anniversary of the date of grant of such award next following the Executive's Termination Date (but not beyond the end of the applicable performance period), and the denominator of which is the number of days in the performance period. Distribution of such award shall be made as soon as practicable following the effective date of the Release but no later than 60 days following the Termination Date.

(C) Notwithstanding the provisions of this Section 1(a)(iii), (I) to the extent that any award agreement governing any of Executive's equity awards outstanding as of the Termination Date contains provisions more favorable than those set forth in this Section 1(a)(iii), then such provisions shall apply to Executive if Executive's employment terminates under the applicable circumstances set forth in such award agreement and (II) in the event of any inconsistency between the timing of payment set forth in this Agreement and the timing of payment set forth in any award agreement with respect to an award granted on or after January 1, 2021, the timing of payment set forth in such award agreement shall govern. For the avoidance of doubt, the vesting provisions of this Section 1(a)(iii) (including the preceding clause (I) of this Section 1(a)(iii) (C)) shall govern the vesting of the phantom shares subject to performance vesting granted to Executive on January 4, 2021, but the timing of payment of such award

shall be governed by the timing of payment set forth in Section 4 of the applicable award agreement.

(b) Other Payments. Executive shall receive any accrued but unpaid base salary and any other amounts earned, accrued or owing but not yet paid to Executive and any other benefits in accordance with the terms of any applicable plans and programs of the Company.

(c) Payments Subject to Section 409A and Other Applicable Law.

(i) Notwithstanding anything herein to the contrary, Executive shall not be entitled to any payment pursuant to this Section 1 prior to the earliest date permitted under Section 409A of the Code, and applicable Treasury regulations thereunder. To the extent any payment pursuant to this Section 1 is required to be delayed six months pursuant to the special rules of Section 409A of the Code related to "specified employees," each affected payment shall be delayed until six months after Executive's termination of employment, and, unless provided otherwise, with the first such payment being a lump sum equal to the aggregate payments Executive would have received during such six-month period if no payment delay had been imposed. Any payments or distributions delayed in accordance with the prior sentence shall be paid to Executive on the first day of the seventh month following Executive's termination of employment. If Executive dies during the postponement period prior to payment, the amounts delayed shall be paid within 60 days after the date of Executive's death.

(ii) Notwithstanding any other provision contained herein, to the extent any payments or distributions due to Executive upon termination of employment under this Agreement are subject to Section 409A of the Code a termination of Executive's employment shall be interpreted in a manner that is consistent with the definition of a "separation from service" under Section 409A of the Code and the applicable Treasury regulations thereunder. Notwithstanding anything elsewhere to the contrary, Executive shall have no duties following any termination of his employment with MFA that are inconsistent with his having a "separation from service" for purposes of Section 409A of the Code and any regulations thereunder.

(iii) In the case of any amounts that are payable to Executive under this Agreement in the form of installment payments, Executive's right to receive such payments shall be treated as a right to receive a series of separate payments under Treas. Reg. §1.409A-2(b)(2)(iii).

(iv) Notwithstanding anything herein to the contrary, in the event that the reimbursements provided pursuant to Section 1(a)(ii) would subject Executive or the Company to adverse tax consequences under Section 105(h) of the Code or any tax penalties, then the parties shall enter into an economically consistent

arrangement that does not cause either party to incur such adverse tax consequences or penalties.

(d) No Mitigation; No Offset. In the event of any termination of Executive's employment under this Agreement, Executive shall be under no obligation to seek other employment or otherwise in any way to mitigate the amount of any payment provided for in this Section 1, and there shall be no offset against amounts due Executive under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain.

(e) Release. The Company's obligation to make any payment or provide any benefit pursuant to this Section 1 shall be contingent upon, and is the consideration for, (i) Executive executing and delivering to the Company, within 50 days after termination of his employment, a general release (the "Release"), substantially in the form annexed hereto as Exhibit A (with any revisions necessary to comply with applicable law as reasonably determined by counsel to MFA and provided in writing to Executive within five business days after the Termination Date), and (ii) such release becoming irrevocable in accordance with its terms. Notwithstanding any provision of Section 1(a), in the event that the 60-day period following the Termination Date spans two calendar years, any such payments or benefits required to be made hereunder during such 60-day period shall be made in the second calendar year, the first payment of which shall include all payments that would otherwise have been made prior thereto.

(f) Parachute Payments.

(i) Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Payments"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Code (after taking into consideration any mitigating factors such as the value of any non-competition restrictions or similar factors), the Company shall reduce (but not below zero) the aggregate present value of the Payments under the Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide Executive with a greater net after-tax amount than would be the case if no such reduction was made. The Payments shall be reduced as described in the preceding sentence only if (A) the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to (B) the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be

reduced pursuant to this Section 1(f), and any reduction shall be made in accordance with Section 409A of the Code.

(ii) The “Reduced Amount” shall be an amount expressed in present value that maximizes the aggregate present value of Payments under this Agreement without causing any Payment under this Agreement to be subject to the Excise Tax, determined in accordance with Section 280G(d)(4) of the Code. The term “Excise Tax” means the excise tax imposed under Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(iii) All determinations to be made under this Section 1(f) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a change of control, which shall provide its determinations and any supporting calculations both to the Company and Executive within ten days of the change of control. Any such determination by such firm shall be binding upon the Company and Executive. All fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section 1(f) shall be borne solely by the Company.

(g) Resignation from Positions. Upon termination of Executive’s employment with the Company for any reason, Executive shall, as may be requested by the Company, resign from any position Executive then holds as an officer, director or fiduciary of the Company or any Company-related entity. In furtherance of the foregoing, Executive shall execute and deliver to the Company any letters, documents and other instruments necessary or appropriate to effect such resignation.

2. Definitions. For purposes of this Agreement, the following terms shall have the meanings specified in this Section 2:

(a) “Cause” shall mean Executive’s (i) commission of a felony, a crime of moral turpitude or any crime committed against MFA, other than traffic violations; (ii) engagement in willful misconduct, willful or gross negligence, or fraud, embezzlement or misappropriation relating to significant amounts, in each case in connection with the performance of his employment duties; (iii) failure to adhere to the lawful directions of the Board of Directors of MFA or the Chief Executive Officer of MFA (the “CEO”) that are reasonably consistent with Executive’s duties and position; (iv) breach in any material respect of any of the provisions of Section 4 of this Agreement; or (v) breach in any material respect of the terms and provisions of this Agreement resulting in material and demonstrable economic injury to MFA. Notwithstanding the foregoing, (A) Executive shall be given written notice of any action or failure to act that is alleged to constitute Cause (a “Default”), and if curable, an opportunity for 20 business days from the date of such notice in which to cure such Default, such period to be subject to extension in the discretion of the CEO and (B) regardless of whether Executive is able to cure any Default, Executive shall not be deemed to have been terminated for Cause without (I) reasonable prior written notice to Executive setting forth the reasons for the decision to terminate Executive for Cause, (II) an opportunity for Executive, together with his counsel, to be heard by

the CEO and (III) delivery to Executive of a Notice of Termination approved by the CEO, stating his good faith opinion that Executive has engaged in actions or conduct described in the preceding sentence, which notice specifies the particulars of such action or conduct in reasonable detail; provided, however, MFA may suspend Executive with pay until such time as his right to appear before the CEO, as the case may be, has been exercised, so long as such appearance is within two weeks of the date of suspension.

(b) “Code” shall mean the Internal Revenue Code of 1986, as amended.

(c) “Good Reason” shall mean (i) a material diminution in Executive’s title, duties or responsibilities (other than in connection with Executive’s disability); (ii) relocation of Executive’s place of employment without his consent outside the New York City metropolitan area; (iii) the failure of MFA to pay within 60 business days any material payment or benefits due from MFA; (iv) the material failure by MFA to honor any of its material obligations to Executive; or (v) a material reduction in Executive’s annual rate of base salary, unless such reduction is part of an overall Company reduction of executive base salaries and the applicable reduction (on a percentage basis) is substantially equivalent to that applicable to other senior executives of MFA.

For Good Reason to exist, Executive must provide written notice of an event purportedly constituting Good Reason within 90 days of its occurrence, MFA must have failed to cure such event within 15 days of such notice and Executive must provide written notice of his decision to terminate employment, such notice to be provided within 15 days of the expiration of such cure period.

(d) “Notice of Termination” shall mean the written notice of termination of Executive’s employment delivered by, as applicable, Executive or MFA.

(e) “Termination Date” shall mean the effective date of the termination of Executive’s employment relationship with the Company.

3. Notice of Termination. Any termination of Executive’s employment shall be communicated by a written notice of termination to the other party hereto given in accordance with Section 5. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon and (ii) specify the Termination Date in accordance with the requirements of this Agreement.

4. Covenants.

(a) Confidentiality. During the term of Executive’s employment with the Company, and at all times thereafter, Executive shall maintain the confidentiality of all confidential or proprietary information of the Company, or of any other person or entity with which Executive has been involved as a direct or indirect result of his employment by, or performance of consulting or other services (including, without limitation, as a director, officer, advisor, agent, consultant or other independent contractor) for, the Company (“Confidential Information”), and, except in furtherance of his employment by

the Company or as specifically required by law or by court order or as permitted by Section 4(d) or in the course of carrying out his duties for the Company, he shall not directly or indirectly disclose any such information to any person or entity; nor shall he use Confidential Information for any purpose except for the benefit of the Company. For purposes of this Agreement, “Confidential Information” includes, without limitation: client or customer lists, identities, contacts, business and financial information; investment strategies; pricing information or policies, fees or commission arrangements of the Company; marketing plans, projections, presentations or strategies of the Company; financial and budget information of the Company; personnel information, personnel lists, resumes, personnel data, organizational structure, compensation and performance evaluations; information regarding the existence or terms of any agreement or relationship between the Company and any other party; and any other information of whatever nature, which gives to the Company an opportunity to obtain an advantage over its competitors who or which do not have access to such information. This restriction shall apply regardless of whether such Confidential Information is in written, graphic, recorded, photographic, data or any machine readable form or is orally conveyed to, or memorized by, Executive; provided, however, that this Section 4(a) shall not apply to Confidential Information that is or becomes publicly known through no act or omission on Executive’s part. Anything to the contrary notwithstanding, nothing in this Agreement shall prevent Executive from retaining papers and other materials of a personal nature, including personal diaries, calendars and Rolodexes, information relating to his compensation or relating to reimbursement of expenses, and copies of plans, programs and agreements relating to his employment.

(b) Non-Solicitation of Employees. In consideration of Executive’s continued employment with the Company, MFA’s agreement to make severance benefits available pursuant to Section 1, and Executive’s being granted access to the trade secrets and other Confidential Information of the Company, Executive agrees that during Executive’s employment with the Company and during the period commencing on Executive’s date of termination of employment for any reason and ending on the first anniversary of Executive’s termination of employment, Executive will not, without the prior written consent of MFA, directly or indirectly (individually, or through or on behalf of another entity as owner, partner, agent, employee, consultant, or in any other capacity), (i) solicit, encourage, or engage in any activity to induce any employee of MFA or its affiliates to terminate employment with MFA or its affiliates, or to become employed by, or to enter into a business relationship with, any other person or entity; or (ii) hire or retain any person who was an employee of MFA or its affiliates within the six month period preceding such action; provided that, (A) this Section shall not apply to any administrative employee of MFA or its affiliates or any person who was an administrative employee of MFA or its affiliates and (B) any hiring or solicitation pursuant to a general solicitation conducted by an entity that has hired or agreed to hire Executive and that does not directly or indirectly target current or former employees of MFA or its affiliates, or by a headhunter employed by such entity, which in either case does not involve Executive, shall not be a violation of this Section.

(c) Remedies.

(i) Executive agrees that these restraints are necessary for the reasonable and proper protection of the Company and its trade secrets and Confidential Information and that each and every one of the restraints is reasonable in respect to subject matter and length of time, and that these restraints, individually or in the aggregate, will not prevent Executive from obtaining other suitable employment during the period in which Executive is bound by the restraints.

(ii) Executive acknowledges that each of these covenants has a unique, very substantial and immeasurable value to the Company, and that, as a result, in the event that Executive breaches such covenants, monetary damages would be an insufficient remedy for the Company and equitable enforcement of the covenant would be proper. Executive therefore agrees that the Company, in addition to any other remedies available to it, will be entitled to preliminary and permanent injunctive relief against any breach by Executive of any of such covenants, without the necessity of showing actual monetary damages or the posting of a bond or other security.

(iii) Executive and MFA further agree that, in the event that any provision of this Section 4 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision will be deemed to be modified to permit its enforcement to the maximum extent permitted by law. Executive further covenants that Executive will not challenge the reasonableness or enforceability of any of the covenants set forth in this Section 4 and that Executive will reimburse MFA and its affiliates for all costs (including reasonable attorneys' fees) incurred in connection with any action to enforce any of the provisions of this Section 4 if either MFA and/or its affiliates prevails on any material issue involved in such dispute or if Executive challenges the reasonableness or enforceability of any of the provisions of this Section 4, it being understood that Executive shall not be considered to have challenged the enforceability of this Section 4 by arguing that his conduct did not, in fact, violate the terms of this Section 4. It is also agreed that each of MFA's affiliates will have the right to enforce all of Executive's obligations to that affiliate under this Agreement, including without limitation pursuant to this Section 4.

(d) Permitted Conduct.

(i) Nothing in this Agreement, including the obligations set forth in this Section 4, restricts or prohibits Executive from initiating communications directly with, responding to any inquiries from, providing testimony before, providing confidential information to, reporting possible violations of law or regulation to, or from filing a claim or assisting with an investigation directly with a self-regulatory authority or a government agency or entity, including the U.S. Equal Employment Opportunity Commission, the Department of Labor, the

National Labor Relations Board, the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General (collectively, the “Regulators”), or from making other disclosures that are protected under the whistleblower provisions of state or federal law or regulation. Executive does not need the prior authorization of the Company to engage in such communications with the Regulators, respond to such inquiries from the Regulators, provide confidential information or documents to the Regulators, or make any such reports or disclosures to the Regulators. Executive is not required to notify the Company that he has engaged in such communications with the Regulators.

(ii) The Company hereby notifies Executive that federal law provides criminal and civil immunity to federal and state claims for trade secret misappropriation to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances that are set forth at 18 U.S.C. §§ 1833(b)(1) and 1833(b)(2), related to the reporting or investigation of a suspected violation of the law, or in connection with a lawsuit for retaliation for reporting a suspected violation of the law. Nothing in this Agreement is intended to limit any rights under such federal law.

5. Notices. Any notice given to either party shall be in writing and shall be deemed to have been given when delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned, if to MFA, at its principal executive office, and if to Executive, at the address of Executive shown on MFA’s records or at such other address as such party may provide in writing.

6. Company Recoupment Policy. Executive agrees that any compensation payable under the Agreement or otherwise shall be subject to any applicable recoupment or clawback policy that the Board may implement from time to time with respect to executive officers of the Company.

7. Contents of Agreement; Amendment and Assignment.

(a) This Agreement contains the entire agreement between MFA and the Executive concerning the subject matter hereof and upon the Effective Date supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between them with respect thereto; provided that, this Agreement shall not replace or supersede any obligation of the Company to provide severance payments in connection with the imposition of any non-competition restrictions set forth in any of Executive’s equity award agreements, notwithstanding the terms and provisions of such equity award agreements, and such obligation shall be in addition to the Company’s obligations hereunder. For the avoidance of doubt, each agreement evidencing Executive’s equity awards outstanding as of the Effective Date shall be deemed to be amended in accordance with the terms of this Agreement.

(b) This Agreement can be changed, modified, terminated or amended only in a writing that is signed by both the Executive and MFA and that specifically identifies the



provision(s) of this Agreement that are being changed, modified, terminated or amended. No waiver by either MFA or the Executive at any time of any breach by the other party of any condition or provision of this Agreement shall be deemed a waiver of a similar or dissimilar condition or provision at the same or at any prior or subsequent time. Any waiver must be in writing and signed by the Executive or the CEO, as the case may be.

(c) All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of Executive under this Agreement are of a personal nature and shall not be assignable or delegatable in whole or in part by Executive. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business or assets of the Company, within 15 days of such succession, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Company would be required to perform if no such succession had taken place.

8. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances.

9. Remedies Cumulative; No Waiver. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

10. Miscellaneous. All section headings used in this Agreement are for convenience only. This Agreement may be executed in counterparts. Signatures delivered by facsimile (including by "pdf") shall be deemed effective for all purposes.

11. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement to the extent necessary to the intended preservation of such rights and obligations. For the avoidance of doubt, the covenants in Section 4 of this Agreement shall survive any termination or expiration of this Agreement and termination of the Executive's employment for any reason.

12. Withholding Taxes. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this

Agreement all federal, state and local taxes as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall be responsible for all taxes applicable to amounts payable under this Agreement and payments under this Agreement shall not be grossed up for taxes.

13. Governing Law. This Agreement shall be governed by and interpreted under the laws of the State of Maryland without giving effect to any conflict of laws provisions.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

MFA FINANCIAL, INC.

By: /s/ Craig L. Knutson

Name: Craig L. Knutson

Title: Chief Executive Officer

Date: May 5, 2021

/s/ Stephen D. Yarad

Name: Stephen D. Yarad

Date: May 5, 2021

## Exhibit A

### Release

This Release of Claims (this "Release") is made as of \_\_\_\_\_, 20\_\_, by and between MFA FINANCIAL, INC. ("MFA") and Stephen D. Yarad (the "Executive").

(a) The Executive, on behalf of himself, his agents, heirs, successors, assigns, executors and administrators, in consideration for the termination payments and other consideration provided for under the Agreement entered into by MFA and the Executive, effective as of [DATE] (the "Agreement"), hereby forever releases and discharges MFA, and its successors, its affiliated entities, and, in such capacities, its past and present directors, employees, agents, attorneys, accountants, representatives, plan fiduciaries, successors and assigns (collectively, the "Releasees") from any and all known and unknown causes of action, actions, judgments, liens, indebtedness, damages, losses, claims, liabilities, and demands of whatsoever kind and character in any manner whatsoever arising on or prior to the date of this Release, including but not limited to (i) any claim for breach of contract, breach of implied covenant, breach of oral or written promise, wrongful termination, intentional infliction of emotional distress, defamation, interference with contract relations or prospective economic advantage, negligence, misrepresentation or employment discrimination, and including without limitation alleged violations of Title VII of the Civil Rights Act of 1964, as amended, prohibiting discrimination based on race, color, religion, sex or national origin; the Family and Medical Leave Act; the Americans With Disabilities Act; the Age Discrimination in Employment Act; other federal, state and local laws, ordinances and regulations; (ii) any and all liability that was or may have been alleged against or imputed to MFA by the Executive or by anyone acting on his behalf; (iii) all claims for monetary or equitable relief, employment or reemployment with MFA in any position, and any punitive, compensatory or liquidated damages; and (iv) all rights to and claims for attorneys' fees and costs except as otherwise provided in the Agreement. The only claims that are not being waived and released by the Executive under this Release are (i) claims for indemnification or D&O coverage or any claim arising under, or preserved by, Section 1 of the Agreement, (ii) claims that, by applicable law, cannot be waived, (iii) claims based on any wrongful act or omission occurring after the date Executive signs this Release, (iv) claims to benefits under any compensation or benefit plan, program or arrangement in which the Executive was participating as of the Termination Date, and (v) claims challenging the legality of this Release in a legal proceeding pursuant to the Older Workers Benefit Protection Act and the Age Discrimination in Employment Act. The Executive acknowledges that the Executive has not made any claims or allegations related to sexual harassment or sexual abuse and none of the termination payments and other consideration provided for under the Agreement are related to sexual harassment or sexual abuse.

(b) Except as provided in Section (c) below, the Executive warrants, represents and certifies that he has not filed or instituted, and, no person or agency has filed or instituted on his behalf and/or at his direction, any complaints, lawsuits, arbitration proceedings, actions, causes of action, in law or equity, administrative charges, claims, controversies,

demands, grievances and/or proceedings whatsoever against any Releasee, in any forum. The Executive represents and warrants that he has not assigned any claim released herein.

(c) Nothing in this Release or the Agreement restricts or prohibits the Executive from initiating communications directly with, responding to any inquiries from, providing testimony before, providing confidential information to, reporting possible violations of law or regulation to, or from filing a claim or assisting with an investigation directly with a self-regulatory authority or a government agency or entity, including the U.S. Equal Employment Opportunity Commission, the Department of Labor, the National Labor Relations Board, the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General (collectively, the “Regulators”), or from making other disclosures that are protected under the whistleblower provisions of state or federal law or regulation. However, to the maximum extent permitted by law, the Executive is waiving the Executive’s right to receive any individual monetary relief from MFA or any others covered by the Release of Claims resulting from such claims or conduct, regardless of whether the Executive or another party has filed them, and in the event the Executive obtains such monetary relief, MFA will be entitled to an offset for the payments made pursuant to this Agreement. This Agreement does not limit the Executive’s right to receive an award from any Regulator that provides awards for providing information relating to a potential violation of law. The Executive does not need the prior authorization of MFA to engage in conduct protected by this paragraph, and the Executive does not need to notify MFA that the Executive has engaged in such conduct.

Please take notice that federal law provides criminal and civil immunity to federal and state claims for trade secret misappropriation to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances that are set forth at 18 U.S.C. §§ 1833(b)(1) and 1833(b)(2), related to the reporting or investigation of a suspected violation of the law, or in connection with a lawsuit for retaliation for reporting a suspected violation of the law.

(d) BY HIS SIGNATURE BELOW, THE EXECUTIVE ACKNOWLEDGES THAT:

(1) HE HAS RECEIVED A COPY OF THIS RELEASE AND WAS OFFERED A PERIOD OF TWENTY-ONE (21) DAYS TO REVIEW AND CONSIDER IT;

(2) IF HE SIGNS THIS RELEASE PRIOR TO THE EXPIRATION OF TWENTY-ONE DAYS, HE KNOWINGLY AND VOLUNTARILY WAIVES AND GIVES UP THIS RIGHT OF REVIEW;

(3) HE HAS THE RIGHT TO REVOKE THIS RELEASE FOR A PERIOD OF SEVEN (7) DAYS AFTER HE SIGNS IT BY MAILING OR DELIVERING A WRITTEN NOTICE OF REVOCATION TO MFA’S GENERAL COUNSEL, NO LATER THAN THE CLOSE OF BUSINESS ON THE SEVENTH DAY AFTER THE DAY ON WHICH HE SIGNED THIS RELEASE;

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(4) THIS RELEASE SHALL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE SEVEN-DAY REVOCATION PERIOD HAS EXPIRED WITHOUT THE RELEASE HAVING BEEN REVOKED (THE “EFFECTIVE DATE”);

(5) THIS RELEASE WILL BE FINAL AND BINDING AFTER THE EXPIRATION OF THE REVOCATION PERIOD REFERRED TO IN SECTION (d)(3).

(6) MFA ADVISES THE EXECUTIVE TO CONSULT WITH AN ATTORNEY. THEREFORE, HE IS AWARE OF HIS RIGHT TO CONSULT AN ATTORNEY, HAS BEEN ADVISED IN WRITING TO CONSULT WITH AN ATTORNEY, AND HAS HAD THE OPPORTUNITY TO CONSULT WITH AN ATTORNEY, IF DESIRED, PRIOR TO SIGNING THIS RELEASE;

(7) NO PROMISE OR INDUCEMENT FOR THIS RELEASE HAS BEEN MADE EXCEPT AS SET FORTH IN THIS RELEASE;

(8) HE IS LEGALLY COMPETENT TO EXECUTE THIS RELEASE AND ACCEPT FULL RESPONSIBILITY FOR IT; AND

(9) HE HAS CAREFULLY READ THIS RELEASE, ACKNOWLEDGES THAT HE HAS NOT RELIED ON ANY REPRESENTATION OR STATEMENT, WRITTEN OR ORAL, NOT SET FORTH IN THIS DOCUMENT, AND WARRANTS AND REPRESENTS THAT HE IS SIGNING THIS RELEASE KNOWINGLY AND VOLUNTARILY.

IN WITNESS WHEREOF, the parties have hereunto set their hands this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

By: \_\_\_\_\_  
Name: Stephen D. Yarad

**AMENDED AND RESTATED AGREEMENT**

THIS AMENDED AND RESTATED AGREEMENT (this "Agreement") is entered into and effective this 5th day of May, 2021 (the "Effective Date"), by and between Harold E. Schwartz ("Executive") and MFA Financial, Inc. ("MFA" or the "Company") and amends and restates the agreement entered into as of May 6, 2020 (the "May 2020 Agreement"), between Executive and the Company.

WHEREAS, the Company and Executive entered into the May 2020 Agreement to reflect their understanding with respect to termination benefits to be provided in the event of a qualifying termination of Executive's employment as set forth therein; and

WHEREAS, MFA and the Executive desire to amend certain terms of the May 2020 Agreement and enter into an amended and restated agreement that supersedes and replaces the May 2020 Agreement in all respects as of the Effective Date.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and intending to be legally bound hereby, the parties agree as follows:

1. Qualifying Termination of Employment.

(a) Termination by the Company Without Cause or by Executive for Good Reason. In the event Executive's employment with the Company is terminated by the Company without Cause or by Executive for Good Reason (and not, for the avoidance of doubt, in connection with a termination of employment on account of death or disability), Executive shall be entitled to receive the severance benefits described below, subject to Section 1(e):

(i) Executive shall receive a lump sum cash payment of an amount equal to the greater of (A) the sum of (I) Executive's annual base salary in effect immediately before the Termination Date (as defined in Section 2) without regard to any adjustments constituting Good Reason, if applicable, and (II) the median of the annual bonuses paid to the Executive for the three calendar years preceding the Termination Date and (B) 200% of Executive's annual base salary in effect immediately before the Termination Date. Such payment shall be made as soon as practicable following the effective date of the Release (as defined below) but no later than the 60th day after the Termination Date.

(ii) The Company shall reimburse Executive for 100% of the COBRA premiums incurred by Executive for Executive and his eligible dependents under the Company's health care plan during the 12 month period following the Termination Date. Such reimbursements shall be provided on the payroll date immediately following the date on which Executive remits the applicable premium payment and shall commence within 60 days after the Termination Date; provided that the first payment shall include

any reimbursements that would have otherwise been payable during the period beginning on the Termination Date and ending on the date of the first reimbursement payment. Reimbursement payments shall be treated as taxable compensation to Executive to the extent required by law.

(iii) Notwithstanding the terms of any equity-award agreements (whether granted prior to or following the Effective Date), all of Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares and restricted stock units) shall be treated in accordance with the following:

(A) Except as otherwise provided in (B) below, all unvested awards shall immediately vest and be distributed or otherwise settled as soon as practicable following the effective date of the Release but no later than 60 days following the Termination Date.

(B) Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award; provided that the equity award shall vest no less favorably than the following: as of the Termination Date, the Executive shall vest in a pro-rata portion of the target value of such award. The pro-rata portion shall be equal to the product of (I) the target value of such award, and (II) a fraction, the numerator of which is the number of days during the performance period that would have elapsed as of the anniversary of the date of grant of such award next following the Executive's Termination Date (but not beyond the end of the applicable performance period), and the denominator of which is the number of days in the performance period. Distribution of such award shall be made as soon as practicable following the effective date of the Release but no later than 60 days following the Termination Date.

(C) Notwithstanding the provisions of this Section 1(a)(iii), (I) to the extent that any award agreement governing any of Executive's equity awards outstanding as of the Termination Date contains provisions more favorable than those set forth in this Section 1(a)(iii), then such provisions shall apply to Executive if Executive's employment terminates under the applicable circumstances set forth in such award agreement and (II) in the event of any inconsistency between the timing of payment set forth in this Agreement and the timing of payment set forth in any award agreement with respect to an award granted on or after January 1, 2021, the timing of payment set forth in such award agreement shall govern. For the avoidance of doubt, the vesting provisions of this Section 1(a)(iii) (including the preceding clause (I) of this Section 1(a)(iii) (C)) shall govern the vesting of the phantom shares subject to performance vesting granted to Executive on January 4, 2021, but the timing of payment of such award



shall be governed by the timing of payment set forth in Section 4 of the applicable award agreement.

(b) Other Payments. Executive shall receive any accrued but unpaid base salary and any other amounts earned, accrued or owing but not yet paid to Executive and any other benefits in accordance with the terms of any applicable plans and programs of the Company.

(c) Payments Subject to Section 409A and Other Applicable Law.

(i) Notwithstanding anything herein to the contrary, Executive shall not be entitled to any payment pursuant to this Section 1 prior to the earliest date permitted under Section 409A of the Code, and applicable Treasury regulations thereunder. To the extent any payment pursuant to this Section 1 is required to be delayed six months pursuant to the special rules of Section 409A of the Code related to "specified employees," each affected payment shall be delayed until six months after Executive's termination of employment, and, unless provided otherwise, with the first such payment being a lump sum equal to the aggregate payments Executive would have received during such six-month period if no payment delay had been imposed. Any payments or distributions delayed in accordance with the prior sentence shall be paid to Executive on the first day of the seventh month following Executive's termination of employment. If Executive dies during the postponement period prior to payment, the amounts delayed shall be paid within 60 days after the date of Executive's death.

(ii) Notwithstanding any other provision contained herein, to the extent any payments or distributions due to Executive upon termination of employment under this Agreement are subject to Section 409A of the Code a termination of Executive's employment shall be interpreted in a manner that is consistent with the definition of a "separation from service" under Section 409A of the Code and the applicable Treasury regulations thereunder. Notwithstanding anything elsewhere to the contrary, Executive shall have no duties following any termination of his employment with MFA that are inconsistent with his having a "separation from service" for purposes of Section 409A of the Code and any regulations thereunder.

(iii) In the case of any amounts that are payable to Executive under this Agreement in the form of installment payments, Executive's right to receive such payments shall be treated as a right to receive a series of separate payments under Treas. Reg. §1.409A-2(b)(2)(iii).

(iv) Notwithstanding anything herein to the contrary, in the event that the reimbursements provided pursuant to Section 1(a)(ii) would subject Executive or the Company to adverse tax consequences under Section 105(h) of the Code or any tax penalties, then the parties shall enter into an economically consistent

arrangement that does not cause either party to incur such adverse tax consequences or penalties.

(d) No Mitigation; No Offset. In the event of any termination of Executive's employment under this Agreement, Executive shall be under no obligation to seek other employment or otherwise in any way to mitigate the amount of any payment provided for in this Section 1, and there shall be no offset against amounts due Executive under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain.

(e) Release. The Company's obligation to make any payment or provide any benefit pursuant to this Section 1 shall be contingent upon, and is the consideration for, (i) Executive executing and delivering to the Company, within 50 days after termination of his employment, a general release (the "Release"), substantially in the form annexed hereto as Exhibit A (with any revisions necessary to comply with applicable law as reasonably determined by counsel to MFA and provided in writing to Executive within five business days after the Termination Date), and (ii) such release becoming irrevocable in accordance with its terms. Notwithstanding any provision of Section 1(a), in the event that the 60-day period following the Termination Date spans two calendar years, any such payments or benefits required to be made hereunder during such 60-day period shall be made in the second calendar year, the first payment of which shall include all payments that would otherwise have been made prior thereto.

(f) Parachute Payments.

(i) Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Payments"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Code (after taking into consideration any mitigating factors such as the value of any non-competition restrictions or similar factors), the Company shall reduce (but not below zero) the aggregate present value of the Payments under the Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide Executive with a greater net after-tax amount than would be the case if no such reduction was made. The Payments shall be reduced as described in the preceding sentence only if (A) the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to (B) the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be

reduced pursuant to this Section 1(f), and any reduction shall be made in accordance with Section 409A of the Code.

(ii) The “Reduced Amount” shall be an amount expressed in present value that maximizes the aggregate present value of Payments under this Agreement without causing any Payment under this Agreement to be subject to the Excise Tax, determined in accordance with Section 280G(d)(4) of the Code. The term “Excise Tax” means the excise tax imposed under Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(iii) All determinations to be made under this Section 1(f) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a change of control, which shall provide its determinations and any supporting calculations both to the Company and Executive within ten days of the change of control. Any such determination by such firm shall be binding upon the Company and Executive. All fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section 1(f) shall be borne solely by the Company.

(g) Resignation from Positions. Upon termination of Executive’s employment with the Company for any reason, Executive shall, as may be requested by the Company, resign from any position Executive then holds as an officer, director or fiduciary of the Company or any Company-related entity. In furtherance of the foregoing, Executive shall execute and deliver to the Company any letters, documents and other instruments necessary or appropriate to effect such resignation.

2. Definitions. For purposes of this Agreement, the following terms shall have the meanings specified in this Section 2:

(a) “Cause” shall mean Executive’s (i) commission of a felony, a crime of moral turpitude or any crime committed against MFA, other than traffic violations; (ii) engagement in willful misconduct, willful or gross negligence, or fraud, embezzlement or misappropriation relating to significant amounts, in each case in connection with the performance of his employment duties; (iii) failure to adhere to the lawful directions of the Board of Directors of MFA or the Chief Executive Officer of MFA (the “CEO”) that are reasonably consistent with Executive’s duties and position; (iv) breach in any material respect of any of the provisions of Section 4 of this Agreement; or (v) breach in any material respect of the terms and provisions of this Agreement resulting in material and demonstrable economic injury to MFA. Notwithstanding the foregoing, (A) Executive shall be given written notice of any action or failure to act that is alleged to constitute Cause (a “Default”), and if curable, an opportunity for 20 business days from the date of such notice in which to cure such Default, such period to be subject to extension in the discretion of the CEO and (B) regardless of whether Executive is able to cure any Default, Executive shall not be deemed to have been terminated for Cause without (I) reasonable prior written notice to Executive setting forth the reasons for the decision to terminate Executive for Cause, (II) an opportunity for Executive, together with his counsel, to be heard by

the CEO and (III) delivery to Executive of a Notice of Termination approved by the CEO, stating his good faith opinion that Executive has engaged in actions or conduct described in the preceding sentence, which notice specifies the particulars of such action or conduct in reasonable detail; provided, however, MFA may suspend Executive with pay until such time as his right to appear before the CEO, as the case may be, has been exercised, so long as such appearance is within two weeks of the date of suspension.

(b) “Code” shall mean the Internal Revenue Code of 1986, as amended.

(c) “Good Reason” shall mean (i) a material diminution in Executive’s title, duties or responsibilities (other than in connection with Executive’s disability); (ii) relocation of Executive’s place of employment without his consent outside the New York City metropolitan area; (iii) the failure of MFA to pay within 60 business days any material payment or benefits due from MFA; (iv) the material failure by MFA to honor any of its material obligations to Executive; or (v) a material reduction in Executive’s annual rate of base salary, unless such reduction is part of an overall Company reduction of executive base salaries and the applicable reduction (on a percentage basis) is substantially equivalent to that applicable to other senior executives of MFA.

For Good Reason to exist, Executive must provide written notice of an event purportedly constituting Good Reason within 90 days of its occurrence, MFA must have failed to cure such event within 15 days of such notice and Executive must provide written notice of his decision to terminate employment, such notice to be provided within 15 days of the expiration of such cure period.

(d) “Notice of Termination” shall mean the written notice of termination of Executive’s employment delivered by, as applicable, Executive or MFA.

(e) “Termination Date” shall mean the effective date of the termination of Executive’s employment relationship with the Company.

3. Notice of Termination. Any termination of Executive’s employment shall be communicated by a written notice of termination to the other party hereto given in accordance with Section 5. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon and (ii) specify the Termination Date in accordance with the requirements of this Agreement.

4. Covenants.

(a) Confidentiality. During the term of Executive’s employment with the Company, and at all times thereafter, Executive shall maintain the confidentiality of all confidential or proprietary information of the Company, or of any other person or entity with which Executive has been involved as a direct or indirect result of his employment by, or performance of consulting or other services (including, without limitation, as a director, officer, advisor, agent, consultant or other independent contractor) for, the Company (“Confidential Information”), and, except in furtherance of his employment by the Company or as specifically

required by law or by court order or as permitted by Section 4(d) or in the course of carrying out his duties for the Company, he shall not directly or indirectly disclose any such information to any person or entity; nor shall he use Confidential Information for any purpose except for the benefit of the Company. For purposes of this Agreement, "Confidential Information" includes, without limitation: client or customer lists, identities, contacts, business and financial information; investment strategies; pricing information or policies, fees or commission arrangements of the Company; marketing plans, projections, presentations or strategies of the Company; financial and budget information of the Company; personnel information, personnel lists, resumes, personnel data, organizational structure, compensation and performance evaluations; information regarding the existence or terms of any agreement or relationship between the Company and any other party; and any other information of whatever nature, which gives to the Company an opportunity to obtain an advantage over its competitors who or which do not have access to such information. This restriction shall apply regardless of whether such Confidential Information is in written, graphic, recorded, photographic, data or any machine readable form or is orally conveyed to, or memorized by, Executive; provided, however, that this Section 4(a) shall not apply to Confidential Information that is or becomes publicly known through no act or omission on Executive's part. Anything to the contrary notwithstanding, nothing in this Agreement shall prevent Executive from retaining papers and other materials of a personal nature, including personal diaries, calendars and Rolodexes, information relating to his compensation or relating to reimbursement of expenses, and copies of plans, programs and agreements relating to his employment.

(b) Non-Solicitation of Employees. In consideration of Executive's continued employment with the Company, MFA's agreement to make severance benefits available pursuant to Section 1, and Executive's being granted access to the trade secrets and other Confidential Information of the Company, Executive agrees that during Executive's employment with the Company and during the period commencing on Executive's date of termination of employment for any reason and ending on the first anniversary of Executive's termination of employment, Executive will not, without the prior written consent of MFA, directly or indirectly (individually, or through or on behalf of another entity as owner, partner, agent, employee, consultant, or in any other capacity), (i) solicit, encourage, or engage in any activity to induce any employee of MFA or its affiliates to terminate employment with MFA or its affiliates, or to become employed by, or to enter into a business relationship with, any other person or entity; or (ii) hire or retain any person who was an employee of MFA or its affiliates within the six month period preceding such action; provided that, (A) this Section shall not apply to any administrative employee of MFA or its affiliates or any person who was an administrative employee of MFA or its affiliates and (B) any hiring or solicitation pursuant to a general solicitation conducted by an entity that has hired or agreed to hire Executive and that does not directly or indirectly target current or former employees of MFA or its affiliates, or by a headhunter employed by such entity, which in either case does not involve Executive, shall not be a violation of this Section.

(c) Remedies.

(i) Executive agrees that these restraints are necessary for the reasonable and proper protection of the Company and its trade secrets and Confidential Information and that each and every one of the restraints is reasonable in respect to subject matter and length of time, and that these restraints, individually or in the aggregate, will not prevent Executive from obtaining other suitable employment during the period in which Executive is bound by the restraints.

(ii) Executive acknowledges that each of these covenants has a unique, very substantial and immeasurable value to the Company, and that, as a result, in the event that Executive breaches such covenants, monetary damages would be an insufficient remedy for the Company and equitable enforcement of the covenant would be proper. Executive therefore agrees that the Company, in addition to any other remedies available to it, will be entitled to preliminary and permanent injunctive relief against any breach by Executive of any of such covenants, without the necessity of showing actual monetary damages or the posting of a bond or other security.

(iii) Executive and MFA further agree that, in the event that any provision of this Section 4 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision will be deemed to be modified to permit its enforcement to the maximum extent permitted by law. Executive further covenants that Executive will not challenge the reasonableness or enforceability of any of the covenants set forth in this Section 4 and that Executive will reimburse MFA and its affiliates for all costs (including reasonable attorneys' fees) incurred in connection with any action to enforce any of the provisions of this Section 4 if either MFA and/or its affiliates prevails on any material issue involved in such dispute or if Executive challenges the reasonability or enforceability of any of the provisions of this Section 4, it being understood that Executive shall not be considered to have challenged the enforceability of this Section 4 by arguing that his conduct did not, in fact, violate the terms of this Section 4. It is also agreed that each of MFA's affiliates will have the right to enforce all of Executive's obligations to that affiliate under this Agreement, including without limitation pursuant to this Section 4.

(d) Permitted Conduct.

(i) Nothing in this Agreement, including the obligations set forth in this Section 4, restricts or prohibits Executive from initiating communications directly with, responding to any inquiries from, providing testimony before, providing confidential information to, reporting possible violations of law or regulation to, or from filing a claim or assisting with an investigation directly with a self-regulatory authority or a government agency or entity, including the U.S. Equal Employment Opportunity Commission, the Department of Labor, the

National Labor Relations Board, the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General (collectively, the “Regulators”), or from making other disclosures that are protected under the whistleblower provisions of state or federal law or regulation. Executive does not need the prior authorization of the Company to engage in such communications with the Regulators, respond to such inquiries from the Regulators, provide confidential information or documents to the Regulators, or make any such reports or disclosures to the Regulators. Executive is not required to notify the Company that he has engaged in such communications with the Regulators.

(ii) The Company hereby notifies Executive that federal law provides criminal and civil immunity to federal and state claims for trade secret misappropriation to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances that are set forth at 18 U.S.C. §§ 1833(b)(1) and 1833(b)(2), related to the reporting or investigation of a suspected violation of the law, or in connection with a lawsuit for retaliation for reporting a suspected violation of the law. Nothing in this Agreement is intended to limit any rights under such federal law.

5. Notices. Any notice given to either party shall be in writing and shall be deemed to have been given when delivered personally or sent by certified or registered mail, postage prepaid, return receipt requested, duly addressed to the party concerned, if to MFA, at its principal executive office, and if to Executive, at the address of Executive shown on MFA’s records or at such other address as such party may provide in writing.

6. Company Recoupment Policy. Executive agrees that any compensation payable under the Agreement or otherwise shall be subject to any applicable recoupment or clawback policy that the Board may implement from time to time with respect to executive officers of the Company.

7. Contents of Agreement; Amendment and Assignment.

(a) This Agreement contains the entire agreement between MFA and the Executive concerning the subject matter hereof and upon the Effective Date supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between them with respect thereto; provided that, this Agreement shall not replace or supersede any obligation of the Company to provide severance payments in connection with the imposition of any non-competition restrictions set forth in any of Executive’s equity award agreements, notwithstanding the terms and provisions of such equity award agreements, and such obligation shall be in addition to the Company’s obligations hereunder. For the avoidance of doubt, each agreement evidencing Executive’s equity awards outstanding as of the Effective Date shall be deemed to be amended in accordance with the terms of this Agreement.

(b) This Agreement can be changed, modified, terminated or amended only in a writing that is signed by both the Executive and MFA and that specifically identifies the

provision(s) of this Agreement that are being changed, modified, terminated or amended. No waiver by either MFA or the Executive at any time of any breach by the other party of any condition or provision of this Agreement shall be deemed a waiver of a similar or dissimilar condition or provision at the same or at any prior or subsequent time. Any waiver must be in writing and signed by the Executive or the CEO, as the case may be.

(c) All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of Executive under this Agreement are of a personal nature and shall not be assignable or delegatable in whole or in part by Executive. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business or assets of the Company, within 15 days of such succession, expressly to assume and agree to perform this Agreement in the same manner and to the same extent as the Company would be required to perform if no such succession had taken place.

8. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances.

9. Remedies Cumulative; No Waiver. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

10. Miscellaneous. All section headings used in this Agreement are for convenience only. This Agreement may be executed in counterparts. Signatures delivered by facsimile (including by "pdf") shall be deemed effective for all purposes.

11. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement to the extent necessary to the intended preservation of such rights and obligations. For the avoidance of doubt, the covenants in Section 4 of this Agreement shall survive any termination or expiration of this Agreement and termination of the Executive's employment for any reason.

12. Withholding Taxes. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this



Agreement all federal, state and local taxes as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall be responsible for all taxes applicable to amounts payable under this Agreement and payments under this Agreement shall not be grossed up for taxes.

13. Governing Law. This Agreement shall be governed by and interpreted under the laws of the State of Maryland without giving effect to any conflict of laws provisions.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

MFA FINANCIAL, INC.

By: /s/ Craig L. Knutson

Name: Craig L. Knutson

Title: Chief Executive Officer

Date: May 5, 2021

/s/ Harold E. Schwartz

Name: Harold E. Schwartz

Date: May 5, 2021

## Exhibit A

### Release

This Release of Claims (this "Release") is made as of \_\_\_\_\_, 20\_\_, by and between MFA FINANCIAL, INC. ("MFA") and Harold E. Schwartz (the "Executive").

(a) The Executive, on behalf of himself, his agents, heirs, successors, assigns, executors and administrators, in consideration for the termination payments and other consideration provided for under the Agreement entered into by MFA and the Executive, effective as of [DATE] (the "Agreement"), hereby forever releases and discharges MFA, and its successors, its affiliated entities, and, in such capacities, its past and present directors, employees, agents, attorneys, accountants, representatives, plan fiduciaries, successors and assigns (collectively, the "Releasees") from any and all known and unknown causes of action, actions, judgments, liens, indebtedness, damages, losses, claims, liabilities, and demands of whatsoever kind and character in any manner whatsoever arising on or prior to the date of this Release, including but not limited to (i) any claim for breach of contract, breach of implied covenant, breach of oral or written promise, wrongful termination, intentional infliction of emotional distress, defamation, interference with contract relations or prospective economic advantage, negligence, misrepresentation or employment discrimination, and including without limitation alleged violations of Title VII of the Civil Rights Act of 1964, as amended, prohibiting discrimination based on race, color, religion, sex or national origin; the Family and Medical Leave Act; the Americans With Disabilities Act; the Age Discrimination in Employment Act; other federal, state and local laws, ordinances and regulations; (ii) any and all liability that was or may have been alleged against or imputed to MFA by the Executive or by anyone acting on his behalf; (iii) all claims for monetary or equitable relief, employment or reemployment with MFA in any position, and any punitive, compensatory or liquidated damages; and (iv) all rights to and claims for attorneys' fees and costs except as otherwise provided in the Agreement. The only claims that are not being waived and released by the Executive under this Release are (i) claims for indemnification or D&O coverage or any claim arising under, or preserved by, Section 1 of the Agreement, (ii) claims that, by applicable law, cannot be waived, (iii) claims based on any wrongful act or omission occurring after the date Executive signs this Release, (iv) claims to benefits under any compensation or benefit plan, program or arrangement in which the Executive was participating as of the Termination Date, and (v) claims challenging the legality of this Release in a legal proceeding pursuant to the Older Workers Benefit Protection Act and the Age Discrimination in Employment Act. The Executive acknowledges that the Executive has not made any claims or allegations related to sexual harassment or sexual abuse and none of the termination payments and other consideration provided for under the Agreement are related to sexual harassment or sexual abuse.

(b) Except as provided in Section (c) below, the Executive warrants, represents and certifies that he has not filed or instituted, and, no person or agency has filed or instituted on his behalf and/or at his direction, any complaints, lawsuits, arbitration proceedings, actions, causes of action, in law or equity, administrative charges, claims, controversies,

demands, grievances and/or proceedings whatsoever against any Releasee, in any forum. The Executive represents and warrants that he has not assigned any claim released herein.

(c) Nothing in this Release or the Agreement restricts or prohibits the Executive from initiating communications directly with, responding to any inquiries from, providing testimony before, providing confidential information to, reporting possible violations of law or regulation to, or from filing a claim or assisting with an investigation directly with a self-regulatory authority or a government agency or entity, including the U.S. Equal Employment Opportunity Commission, the Department of Labor, the National Labor Relations Board, the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General (collectively, the “Regulators”), or from making other disclosures that are protected under the whistleblower provisions of state or federal law or regulation. However, to the maximum extent permitted by law, the Executive is waiving the Executive’s right to receive any individual monetary relief from MFA or any others covered by the Release of Claims resulting from such claims or conduct, regardless of whether the Executive or another party has filed them, and in the event the Executive obtains such monetary relief, MFA will be entitled to an offset for the payments made pursuant to this Agreement. This Agreement does not limit the Executive’s right to receive an award from any Regulator that provides awards for providing information relating to a potential violation of law. The Executive does not need the prior authorization of MFA to engage in conduct protected by this paragraph, and the Executive does not need to notify MFA that the Executive has engaged in such conduct.

Please take notice that federal law provides criminal and civil immunity to federal and state claims for trade secret misappropriation to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances that are set forth at 18 U.S.C. §§ 1833(b)(1) and 1833(b)(2), related to the reporting or investigation of a suspected violation of the law, or in connection with a lawsuit for retaliation for reporting a suspected violation of the law.

(d) BY HIS SIGNATURE BELOW, THE EXECUTIVE ACKNOWLEDGES THAT:

(1) HE HAS RECEIVED A COPY OF THIS RELEASE AND WAS OFFERED A PERIOD OF TWENTY-ONE (21) DAYS TO REVIEW AND CONSIDER IT;

(2) IF HE SIGNS THIS RELEASE PRIOR TO THE EXPIRATION OF TWENTY-ONE DAYS, HE KNOWINGLY AND VOLUNTARILY WAIVES AND GIVES UP THIS RIGHT OF REVIEW;

(3) HE HAS THE RIGHT TO REVOKE THIS RELEASE FOR A PERIOD OF SEVEN (7) DAYS AFTER HE SIGNS IT BY MAILING OR DELIVERING A WRITTEN NOTICE OF REVOCATION TO MFA’S GENERAL COUNSEL, NO LATER THAN THE CLOSE OF BUSINESS ON THE SEVENTH DAY AFTER THE DAY ON WHICH HE SIGNED THIS RELEASE;

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(4) THIS RELEASE SHALL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE SEVEN-DAY REVOCATION PERIOD HAS EXPIRED WITHOUT THE RELEASE HAVING BEEN REVOKED (THE "EFFECTIVE DATE");

(5) THIS RELEASE WILL BE FINAL AND BINDING AFTER THE EXPIRATION OF THE REVOCATION PERIOD REFERRED TO IN SECTION (d)(3).

(6) MFA ADVISES THE EXECUTIVE TO CONSULT WITH AN ATTORNEY. THEREFORE, HE IS AWARE OF HIS RIGHT TO CONSULT AN ATTORNEY, HAS BEEN ADVISED IN WRITING TO CONSULT WITH AN ATTORNEY, AND HAS HAD THE OPPORTUNITY TO CONSULT WITH AN ATTORNEY, IF DESIRED, PRIOR TO SIGNING THIS RELEASE;

(7) NO PROMISE OR INDUCEMENT FOR THIS RELEASE HAS BEEN MADE EXCEPT AS SET FORTH IN THIS RELEASE;

(8) HE IS LEGALLY COMPETENT TO EXECUTE THIS RELEASE AND ACCEPT FULL RESPONSIBILITY FOR IT; AND

(9) HE HAS CAREFULLY READ THIS RELEASE, ACKNOWLEDGES THAT HE HAS NOT RELIED ON ANY REPRESENTATION OR STATEMENT, WRITTEN OR ORAL, NOT SET FORTH IN THIS DOCUMENT, AND WARRANTS AND REPRESENTS THAT HE IS SIGNING THIS RELEASE KNOWINGLY AND VOLUNTARILY.

IN WITNESS WHEREOF, the parties have hereunto set their hands this \_\_\_\_ day of \_\_\_\_\_, 20\_\_.

By: \_\_\_\_\_  
Name: Harold E. Schwartz

**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: May 6, 2021

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

## 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: May 6, 2021

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

**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 March 31, 2021 (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: May 6, 2021

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.



**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 March 31, 2021 (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  
and Chief Accounting Officer

Date: May 6, 2021

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.