

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 June 30, 2023

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 Fixed-to-Floating Rate 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

101,915,797 shares of the registrant's common stock, \$0.01 par value, were outstanding as of July 28, 2023.

MFA FINANCIAL, INC.

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets as of June 30, 2023 (Unaudited) and December 31, 2022</u>
	<u>Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2023 and June 30, 2022</u>
	<u>Consolidated Statements of Comprehensive Income/(Loss) (Unaudited) for the Three and Six Months Ended June 30, 2023 and June 30, 2022</u>
	<u>Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the Three and Six Months Ended June 30, 2023 and June 30, 2022</u>
	<u>Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2023 and June 30, 2022</u>
	<u>Notes to the Unaudited Consolidated Financial Statements</u>
	<u>Note 1. Organization</u>
	<u>Note 2. Summary of Significant Accounting Policies</u>
	<u>Note 3. Residential Whole Loans</u>
	<u>Note 4. Securities, at Fair Value</u>
	<u>Note 5. Other Assets</u>
	<u>Note 6. Financing Agreements</u>
	<u>Note 7. Other Liabilities</u>
	<u>Note 8. Income Taxes</u>
	<u>Note 9. Commitments and Contingencies</u>
	<u>Note 10. Stockholders' Equity</u>
	<u>Note 11. EPS Calculation</u>
	<u>Note 12. Equity Compensation and Other Benefit Plans</u>
	<u>Note 13. Fair Value of Financial Instruments</u>
	<u>Note 14. Use of Special Purpose Entities and Variable Interest Entities</u>
	<u>Note 15. Segment Reporting</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>
<u>Item 5.</u>	<u>Other Information</u>
<u>Item 6.</u>	<u>Exhibits</u>
<u>Signatures</u>	

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

(In Thousands Except Per Share Amounts)	June 30, 2023 (Unaudited)	December 31, 2022
Assets:		
Residential whole loans, net (\$6,500,033 and \$5,727,524 held at fair value, respectively) (1)(2)	\$ 8,139,786	\$ 7,518,739
Securities, at fair value (2)	594,294	333,364
Cash and cash equivalents	329,391	334,183
Restricted cash	174,005	159,898
Other assets (2)	498,755	766,221
Total Assets	<u>\$ 9,736,231</u>	<u>\$ 9,112,405</u>
Liabilities:		
Financing agreements (\$4,116,746 and \$3,898,744 held at fair value, respectively)	\$ 7,568,177	\$ 6,812,086
Other liabilities	223,285	311,470
Total Liabilities	<u>\$ 7,791,462</u>	<u>\$ 7,123,556</u>
Commitments and contingencies (See Note 9)		
Stockholders' Equity:		
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; 101,916 and 101,802 shares issued and outstanding, respectively	1,019	1,018
Additional paid-in capital, in excess of par	3,691,233	3,684,291
Accumulated deficit	(1,761,093)	(1,717,991)
Accumulated other comprehensive income	13,420	21,341
Total Stockholders' Equity	<u>\$ 1,944,769</u>	<u>\$ 1,988,849</u>
Total Liabilities and Stockholders' Equity	<u>\$ 9,736,231</u>	<u>\$ 9,112,405</u>

(1) Includes approximately \$4.8 billion and \$4.0 billion of Residential whole loans transferred to consolidated variable interest entities ("VIEs") at June 30, 2023 and December 31, 2022, respectively. Such assets can be used only to settle the obligations of each respective VIE.

(2) See Note 6 for information regarding the Company's pledged assets.

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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Interest Income:				
Residential whole loans	\$ 128,048	\$ 102,354	\$ 247,558	\$ 201,820
Securities, at fair value	9,948	5,294	17,256	10,569
Other interest-earning assets	2,622	1,349	4,973	2,855
Cash and cash equivalent investments	3,732	324	6,768	426
Interest Income	\$ 144,350	\$ 109,321	\$ 276,555	\$ 215,670
Interest Expense:				
Asset-backed and other collateralized financing arrangements	\$ 95,884	\$ 52,805	\$ 184,764	\$ 92,170
Other interest expense	3,961	3,937	7,917	7,868
Interest Expense	\$ 99,845	\$ 56,742	\$ 192,681	\$ 100,038
Net Interest Income	\$ 44,505	\$ 52,579	\$ 83,874	\$ 115,632
(Provision)/Reversal of Provision for Credit Losses on Residential Whole Loans	\$ (294)	\$ (1,817)	\$ (281)	\$ 1,694
Provision for Credit Losses on Other Assets	—	(28,579)	—	(28,579)
Net Interest Income after Provision for Credit Losses	\$ 44,211	\$ 22,183	\$ 83,593	\$ 88,747
Other (Loss)/Income, net:				
Net loss on residential whole loans measured at fair value through earnings	\$ (130,703)	\$ (218,181)	\$ (1,529)	\$ (506,116)
Impairment and other net loss on securities and other portfolio investments	(4,569)	(12,046)	(1,638)	(15,747)
Net gain on real estate owned	2,153	7,185	6,095	15,917
Net gain on derivatives used for risk management purposes	60,451	47,804	39,243	141,905
Net gain/(loss) on securitized debt measured at fair value through earnings	27,394	84,573	(24,331)	148,690
Lima One - origination, servicing and other fee income	11,477	10,673	20,453	25,167
Other, net	5,496	3,544	8,668	6,220
Other (Loss)/Income, net	\$ (28,301)	\$ (76,448)	\$ 46,961	\$ (183,964)
Operating and Other Expense:				
Compensation and benefits	\$ 21,771	\$ 19,060	\$ 42,401	\$ 38,616
Other general and administrative expense	11,169	10,507	21,560	19,204
Loan servicing, financing and other related costs	7,598	13,235	17,137	23,636
Amortization of intangible assets	1,300	3,300	2,600	6,600
Operating and Other Expense	\$ 41,838	\$ 46,102	\$ 83,698	\$ 88,056
Net (Loss)/Income	\$ (25,928)	\$ (100,367)	\$ 46,856	\$ (183,273)
Less Preferred Stock Dividend Requirement	\$ 8,218	\$ 8,219	\$ 16,437	\$ 16,438
Net (Loss)/Income Available to Common Stock and Participating Securities	\$ (34,146)	\$ (108,586)	\$ 30,419	\$ (199,711)
Basic (Loss)/Earnings per Common Share	\$ (0.34)	\$ (1.06)	\$ 0.30	\$ (1.91)
Diluted (Loss)/Earnings per Common Share	\$ (0.34)	\$ (1.06)	\$ 0.29	\$ (1.91)

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

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

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income/(loss)	\$ (25,928)	\$ (100,367)	\$ 46,856	\$ (183,273)
Other Comprehensive Income/(Loss):				
Unrealized losses on securities available-for-sale	(6,805)	(4,937)	(7,921)	(9,914)
Changes in fair value of financing agreements at fair value due to changes in instrument-specific credit risk	—	—	—	1,255
Other Comprehensive (Loss)	(6,805)	(4,937)	(7,921)	(8,659)
Comprehensive income/(loss) before preferred stock dividends	\$ (32,733)	\$ (105,304)	\$ 38,935	\$ (191,932)
Dividends required on preferred stock	(8,218)	(8,219)	(16,437)	(16,438)
Comprehensive Income/(Loss) Available to Common Stock and Participating Securities	\$ (40,951)	\$ (113,523)	\$ 22,498	\$ (208,370)

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

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

Six Months Ended June 30, 2023

(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, 2022	11,000	\$ 110	8,000	\$ 80	101,802	\$ 1,018	\$ 3,684,291	\$ (1,717,991)	\$ 21,341	\$ 1,988,849
Net income	—	—	—	—	—	—	—	72,784	—	72,784
Issuance of common stock, net of expenses	—	—	—	—	168	1	17	—	—	18
Repurchase of shares of common stock (1)	—	—	—	—	(58)	—	(599)	—	—	(599)
Equity based compensation expense	—	—	—	—	—	—	3,019	—	—	3,019
Change in accrued dividends attributable to stock-based awards	—	—	—	—	—	—	557	(932)	—	(375)
Dividends declared on common stock (\$0.35 per share)	—	—	—	—	—	—	—	(35,669)	—	(35,669)
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)	—	—	—	—	—	—	—	(4,469)	—	(4,469)
Dividends attributable to dividend equivalents	—	—	—	—	—	—	—	(86)	—	(86)
Change in unrealized gains on securities, net	—	—	—	—	—	—	—	—	(1,116)	(1,116)
Balance at March 31, 2023	11,000	\$ 110	8,000	\$ 80	101,912	\$ 1,019	\$ 3,687,285	\$ (1,690,113)	\$ 20,225	\$ 2,018,606
Net loss	—	—	—	—	—	—	—	(25,928)	—	(25,928)
Issuance of common stock, net of expenses	—	—	—	—	4	—	16	—	—	16
Repurchase of shares of common stock (1)	—	—	—	—	—	—	—	—	—	—
Equity based compensation expense	—	—	—	—	—	—	3,932	—	—	3,932
Change in accrued dividends attributable to stock-based awards	—	—	—	—	—	—	—	(1,044)	—	(1,044)
Dividends declared on common stock (\$0.35 per share)	—	—	—	—	—	—	—	(35,671)	—	(35,671)
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)	—	—	—	—	—	—	—	(4,469)	—	(4,469)
Dividends attributable to dividend equivalents	—	—	—	—	—	—	—	(118)	—	(118)
Change in unrealized gains on securities, net	—	—	—	—	—	—	—	—	(6,805)	(6,805)
Balance at June 30, 2023	11,000	\$ 110	8,000	\$ 80	101,916	\$ 1,019	\$ 3,691,233	\$ (1,761,093)	\$ 13,420	\$ 1,944,769

(1) For the six months ended June 30, 2023 includes approximately \$600,000 (58,505 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)

Six Months Ended June 30, 2022

(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, 2021	11,000	\$ 110	8,000	\$ 80	108,138	\$ 1,082	\$ 3,775,482	\$ (1,279,484)	\$ 45,578	\$ 2,542,848
Net loss	—	—	—	—	—	—	—	(82,906)	—	(82,906)
Issuance of common stock, net of expenses	—	—	—	—	150	1	485	—	—	486
Repurchase of shares of common stock (1)	—	—	—	—	(3,252)	(33)	(55,709)	—	—	(55,742)
Equity based compensation expense	—	—	—	—	—	—	2,642	—	—	2,642
Change in accrued dividends attributable to stock-based awards	—	—	—	—	—	—	74	(150)	—	(76)
Dividends declared on common stock (\$0.440 per share)	—	—	—	—	—	—	—	(46,215)	—	(46,215)
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)	—	—	—	—	—	—	—	(4,469)	—	(4,469)
Dividends attributable to dividend equivalents	—	—	—	—	—	—	—	(141)	—	(141)
Change in unrealized losses on securities, net	—	—	—	—	—	—	—	—	(4,977)	(4,977)
Changes in fair value of financing agreements at fair value due to changes in instrument-specific credit risk	—	—	—	—	—	—	—	—	1,255	1,255
Balance at March 31, 2022	11,000	\$ 110	8,000	\$ 80	105,036	\$ 1,050	\$ 3,722,974	\$ (1,417,115)	\$ 41,856	\$ 2,348,955
Net loss	—	—	—	—	—	—	—	(100,367)	—	(100,367)
Issuance of common stock, net of expenses	—	—	—	—	38	1	552	—	—	553
Repurchase of shares of common stock (1)	—	—	—	—	(3,281)	(33)	(47,479)	—	—	(47,512)
Equity based compensation expense	—	—	—	—	—	—	3,540	—	—	3,540
Change in accrued dividends attributable to stock-based awards	—	—	—	—	—	—	(509)	(153)	—	(662)
Dividends declared on common stock (\$0.44 per share)	—	—	—	—	—	—	—	(44,789)	—	(44,789)
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)	—	—	—	—	—	—	—	(4,469)	—	(4,469)
Dividends attributable to dividend equivalents	—	—	—	—	—	—	—	(174)	—	(174)
Change in unrealized gains on securities, net	—	—	—	—	—	—	—	—	(4,937)	(4,937)
Balance at June 30, 2022	11,000	\$ 110	8,000	\$ 80	101,793	\$ 1,018	\$ 3,679,078	\$ (1,570,817)	\$ 36,919	\$ 2,146,388

(1) For the six months ended June 30, 2022 includes approximately \$1.0 million (56,690 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)	Six Months Ended June 30,	
	2023	2022
Cash Flows From Operating Activities:		
Net income/(loss)	\$ 46,856	\$ (183,273)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Net (gain)/loss on residential whole loans	1,529	500,660
Impairment and other net (gain)/loss on securities and other portfolio investments, net	1,638	15,743
Net gain on real estate owned	(6,129)	(15,559)
Accretion of purchase discounts and amortization of purchase premiums on residential whole loans and securities	(10,336)	(6,846)
Provision for credit losses on residential whole loans and other assets	290	25,965
Net loss/(gain) on derivatives used for risk management purposes	5,861	(151,706)
Net loss/(gain) on securitized debt measured at fair value through earnings	17,938	(147,203)
Net margin (paid)/received for derivatives used for risk management purposes	30,384	102,718
Net other non-cash losses included in net income	12,291	16,406
(Increase)/decrease in other assets	(50,797)	60,039
Increase/(decrease) in other liabilities	15,602	(4,570)
Net cash provided by operating activities	\$ 65,127	\$ 212,374
Cash Flows From Investing Activities:		
Purchases and origination of residential whole loans, loan related investments and capitalized advances	\$ (1,340,773)	\$ (1,964,553)
Proceeds from sales of residential whole loans	262,692	—
Principal payments on residential whole loans and loan related investments	694,992	1,134,500
Purchases of securities	(383,746)	—
Proceeds from sales of securities and other assets	—	369
Principal payments on securities	15,767	2,453
Proceeds from sales of real estate owned	66,175	81,442
Other investing activities	(7,323)	(4,305)
Net cash used in investing activities	\$ (692,216)	\$ (750,094)
Cash Flows From Financing Activities:		
Principal payments on financing agreements with mark-to-market collateral provisions	\$ (1,242,689)	\$ (1,728,740)
Proceeds from borrowings under financing agreements with mark-to-market collateral provisions	1,422,773	1,791,390
Principal payments on other collateralized financing agreements	(939,646)	(1,261,737)
Proceeds from borrowings under other collateralized financing agreements	1,490,568	2,099,070
Payment made for other collateralized financing agreement related costs	(6,673)	(9,632)
Proceeds from issuances of common stock	34	1,122
Payments made for the repurchase of common stock through the stock repurchase program	—	(102,311)
Dividends paid on preferred stock	(16,438)	(16,438)
Dividends paid on common stock and dividend equivalents	(71,525)	(94,108)
Net cash provided by financing activities	\$ 636,404	\$ 678,616
Net increase in cash, cash equivalents and restricted cash	\$ 9,315	\$ 140,896
Cash, cash equivalents and restricted cash at beginning of period	\$ 494,081	\$ 404,447
Cash, cash equivalents and restricted cash at end of period	\$ 503,396	\$ 545,343
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 188,884	\$ 89,367
Non-cash Investing and Financing Activities:		
Transfer from residential whole loans to real estate owned	\$ 49,181	\$ 45,217
Dividends and dividend equivalents declared and unpaid	\$ 35,789	\$ 44,963
Payable for purchase of unsettled Agency MBS	\$ 30,931	\$ —

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

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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 8).

2. Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

On April 4, 2022, the Company effected a one-for-four reverse stock split of its issued and outstanding shares of common stock (the “Reverse Stock Split”). Accordingly, all share and per share data included in these consolidated financial statements and notes thereto have been adjusted retroactively to reflect the impact of the Reverse Stock Split.

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, 2022. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial condition of the Company at June 30, 2023 and results of operations for all periods presented have been made. The results of operations for the three and six months ended June 30, 2023 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), certain securities designated as available-for-sale (“AFS”) (see Note 4) and certain Other assets (see Note 5), valuation of Securities, at fair value (see Notes 4 and 13), income recognition and valuation of residential whole loans (see Notes 3 and 13), valuation of financing agreements (Notes 6 and 13), and valuation of derivative instruments (see Notes 5(d) and 13). 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 8). Actual results could differ from those estimates.

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. Certain prior period amounts have been reclassified to conform to the current period presentation.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(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 or originated by Lima One. The accounting model utilized by the Company is determined at the time each loan package is initially acquired. Prior to the second quarter of 2021, the Company typically elected the fair value option on loans that were 60 or more days delinquent at purchase ("Purchased Non-performing Loans"). Purchased Credit Deteriorated Loans (i.e., mortgage loans in which the underlying borrower had a delinquency status of less than 60 days at the acquisition date) acquired prior to the second quarter of 2021 are typically held at carrying value. Purchased Performing Loans (as described below) acquired prior to the second quarter of 2021 are also 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. Starting in the second quarter of 2021, the Company began to elect the fair value option for all loans acquired, irrespective of borrower delinquency status at acquisition. The accounting model initially applied to loan acquisitions is not permitted to be subsequently changed. Consequently, the Company is not permitted to retroactively apply fair value accounting to loans held at carrying value acquired in periods prior to the second quarter of 2021.

The Company's residential whole loans pledged as collateral against financing agreements are included in the consolidated balance sheets with amounts pledged disclosed in Note 6. 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 the Company's 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, 13 and 14).

Purchased Performing Loans

Acquisitions of Purchased Performing Loans to date (which include loans purchased from third parties or loans originated by Lima One) 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 and multi-family properties made to non-occupant borrowers that intend to rehabilitate and sell the properties ("Transitional loans" or "TL") (also sometimes referred to as "Rehabilitation loans" or "Fix and Flip loans"), (iii) business purpose 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"), (iv) loans on investor properties that conform to the standards for purchase by a federally chartered corporation, such as the Federal National Mortgage Association ("Fannie Mae") or the Federal Home Loan Mortgage Corporation ("Freddie Mac") ("Agency eligible investor loans"), and (v) 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 (or amount funded for originated loans). Interest income on Purchased Performing Loans acquired at par is accrued based on each loan's current interest bearing balance and current interest rate. Interest income on such loans acquired 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 servicing costs.

For Purchased Performing Loans acquired prior to the second quarter of 2021 for which the fair value option was not elected, 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 on 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).

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

For nonaccrual 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. A loan is written off when it is no longer realizable and/or it is legally discharged. Modified loans are considered “troubled debt 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 may consider multiple scenarios and select 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 significantly from the calculation of the allowance for credit losses in prior periods.

Purchased Credit Deteriorated Loans

The Company has elected to account for these loans as credit deteriorated, as they have experienced a deterioration in credit quality since origination and prior to our purchase 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 their 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. Purchased Credit Deteriorated Loans acquired prior to the second quarter of 2021, or where the fair value option was not otherwise elected, 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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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. Prior to the second quarter of 2021, this accounting election was made primarily on Purchased Non-performing Loans. Starting in the second quarter of 2021, the Company made the fair value election on all loan acquisitions, which, to date, have been comprised exclusively of Purchased Performing Loans (including loans originated by Lima One since its consolidation). The Company generally considers accounting for these loans at fair value to be more reflective of the expected pattern of returns from these loans under current economic conditions. The Company determines the fair value of its residential whole loans held at fair value after considering portfolio valuations obtained from third-parties that specialize in providing valuations of residential mortgage loans and trading activity observed in the marketplace. 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.

Interest income is recorded on these loans based on their yield and is presented as part of interest income in 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. Income and costs associated with originating loans on which the fair value option was elected are recorded in other income and expense respectively in the period in which they are earned or incurred.

(c) Securities, at Fair Value

Residential Mortgage Securities

The Company has invested in residential MBS that are issued or 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 the Government National Mortgage Association ("Ginnie Mae") (collectively, "Agency MBS"), and residential MBS that are not guaranteed by any agency of the U.S. Government or any federally chartered corporation ("Non-Agency MBS"). In addition, the Company has investments in CRT securities that are issued by 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.

Term Notes Backed by MSR 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.

Designation

Securities 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 securities, which include term notes backed by MSR collateral and certain CRT securities, 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 accumulated other comprehensive income ("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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

The Company has elected the fair value option for its Agency and Non-Agency MBS and certain of its CRT securities. These 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 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 Securities

In determining the fair value of the Company's 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 13). For term notes backed by MSR collateral, 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.

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 securities pledged as collateral against financing agreements are included on the consolidated balance sheets with the fair value of the securities pledged disclosed in Note 6. 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 June 30, 2023 and December 31, 2022. At June 30, 2023 and December 31, 2022, the Company had cash and cash equivalents of \$329.4 million and \$334.2 million, respectively. At June 30, 2023, the Company had \$224.4 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, 2022, the Company had \$267.1 million worth of investments in overnight money market funds. In addition, deposits in FDIC insured accounts generally exceed insured limits (see Notes 6 and 13).

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(e) Restricted Cash

Restricted cash primarily represents the Company's cash collections held in connection with certain of the Company's financing agreements, interest rate swap agreements ("Swaps") and/or loan servicing activities that are not available to the Company for general corporate purposes. Restricted cash may be applied against amounts due to financing agreements and/or Swap counterparties, or may be returned to the Company when the related collateral requirements are exceeded or at the maturity of financing agreements and/or Swaps. The Company had aggregate restricted cash of \$174.0 million and \$159.9 million at June 30, 2023 and December 31, 2022, respectively (see Notes 5(d), 6 and 13).

(f) Goodwill & Intangible Assets

At June 30, 2023 and December 31, 2022, the Company had goodwill of \$61.1 million, which represents the excess of the fair value of consideration paid over the fair value of net assets acquired in connection with the acquisition of Lima One, and other intangible assets of \$9.6 million and \$12.2 million, respectively (net of amortization), primarily comprised of customer relationships, non-competition agreements (fully amortized as of June 30, 2022), trademarks and trade names, and internally developed software recognized as part of the acquisition of Lima One (see Note 5(b)). The intangible assets are amortized over their expected useful lives, which ranged from one to ten years at acquisition. Goodwill, which is not subject to amortization, and intangible assets are tested for impairment at least annually, or more frequently under certain circumstances that could reduce the fair value of the Lima One reporting unit (a component of the Lima One segment) below its carrying amount. Through June 30, 2023, the Company had not recognized any impairment against its goodwill or intangible assets. Goodwill and intangible assets are included in Other assets on the Company's consolidated balance sheets.

(g) Real Estate Owned ("REO")

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

(h) 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 Notes 5 and 9 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 fifteen years at the time of purchase. The building component of real estate held-for-investment is depreciated over 27.5 years.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(i) 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. To the extent that the Company has elected the fair value option for the related debt liability, these costs are expensed at the closing of the transaction.

(j) 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.

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 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 and 13).

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.

(k) 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") under the Company's Equity Compensation Plan (the "Equity Plan"), 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 ("TSR") during that three-year period, as well as the 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 TSR over a specified period constitute a "market condition,"

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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.

(l) 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, 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, 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 6.25% Convertible Senior Notes due 2024 (the “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 11).

(m) 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.

(n) Derivative Financial Instruments

The Company may use 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.

Swaps

The Company has entered into Swaps that are not designated as hedges for accounting purposes. 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 (see Note 5(d)).

To Be Announced (“TBA”) Securities

During 2021 and 2022, the Company entered into transactions to take short positions in TBA securities in connection with the management of interest rate and other market risks associated with purchases of Agency eligible investor loans. As the Company did not intend to physically settle its transactions in TBA securities, they were required to be accounted for as derivative financial instruments. The Company did not apply hedge accounting to its TBA securities. Accordingly, TBA securities were recorded on the Company’s balance sheets at fair value, with realized and unrealized changes in fair value each period recorded in Other income, net in the Company’s consolidated statements of operations.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(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 13).

(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.

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 14).

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

As of June 30, 2023, there were no new accounting standards or interpretations adopted by the Company that had a material effect on its consolidated financial statements in 2023.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

3. Residential Whole Loans

Included on the Company's consolidated balance sheets at June 30, 2023 and December 31, 2022 are approximately \$8.1 billion and \$7.5 billion, respectively, of residential whole loans generally 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. Starting in the second quarter of 2021, the Company elected the fair value option for all loan acquisitions, including loans originated by Lima One subsequent to its acquisition by the Company. Prior to the second quarter of 2021, the fair value option was typically elected only for Purchased Non-performing Loans.

The following table presents the components of the Company's Residential whole loans, and the accounting model designated at June 30, 2023 and December 31, 2022:

(Dollars in Thousands)	Held at Carrying Value		Held at Fair Value		Total	
	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Purchased Performing Loans:						
Non-QM loans	\$ 912,826	\$ 987,282	\$ 2,696,293	\$ 2,372,548	\$ 3,609,119	\$ 3,359,830
Transitional loans (1)	42,427	75,188	1,705,830	1,342,032	1,748,257	1,417,220
Single-family rental loans	191,780	210,833	1,300,130	1,165,741	1,491,910	1,376,574
Seasoned performing loans	75,389	82,932	—	—	75,389	82,932
Agency eligible investor loans	—	—	58,068	51,094	58,068	51,094
Total Purchased Performing Loans	\$ 1,222,422	\$ 1,356,235	\$ 5,760,321	\$ 4,931,415	\$ 6,982,743	\$ 6,287,650
Purchased Credit Deteriorated Loans	\$ 448,366	\$ 470,294	\$ —	\$ —	\$ 448,366	\$ 470,294
Allowance for Credit Losses	\$ (31,035)	\$ (35,314)	\$ —	\$ —	\$ (31,035)	\$ (35,314)
Purchased Non-Performing Loans	\$ —	\$ —	\$ 739,712	\$ 796,109	\$ 739,712	\$ 796,109
Total Residential Whole Loans	\$ 1,639,753	\$ 1,791,215	\$ 6,500,033	\$ 5,727,524	\$ 8,139,786	\$ 7,518,739
Number of loans	6,682	7,126	18,074	16,717	24,756	23,843

(1) As of June 30, 2023 includes \$926.7 million of loans collateralized by one-to-four family residential properties and \$821.5 million of loans collateralized by multi-family properties. As of December 31, 2022 includes \$784.9 million of loans collateralized by one-to-four family residential properties and \$632.3 million of Transitional loans collateralized by multi-family properties.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

The following table presents additional information regarding the Company's Residential whole loans at June 30, 2023 and December 31, 2022:

June 30, 2023

(Dollars In Thousands)	Fair Value / Carrying Value	Unpaid Principal Balance ("UPB")	Weighted Average Coupon (2)	Weighted Average Term to Maturity (Months)	Weighted Average LTV Ratio (3)	Weighted Average Original FICO (4)	Aging by UPB				60+ Delinquency %
							Current	Past Due Days			
								30-59	60-89	90+	
Purchased Performing Loans:											
Non-QM loans	\$ 3,602,412	\$ 3,917,542	5.48 %	348	64 %	735	\$ 3,749,468	\$ 72,290	\$ 24,934	\$ 70,850	2.4 %
Transitional loans (1)	1,745,417	1,759,641	8.45	11	65	744	1,675,104	12,749	8,188	63,600	4.1
Single-family rental loans	1,490,673	1,604,083	6.01	321	68	737	1,555,427	10,893	3,766	33,997	2.4
Seasoned performing loans	75,347	82,695	4.01	147	29	726	78,138	1,378	43	3,136	3.8
Agency eligible investor loans	58,068	70,075	3.44	338	67	757	69,082	—	765	228	1.4
Total Purchased Performing Loans	6,971,917	\$ 7,434,036	6.26 %	260							2.8 %
Purchased Credit Deteriorated Loans	\$ 428,157	\$ 528,843	4.75 %	272	62 %	N/A	\$ 394,413	\$ 45,891	\$ 13,721	\$ 74,818	16.7 %
Purchased Non-Performing Loans	\$ 739,712	\$ 825,289	5.12 %	274	67 %	N/A	\$ 448,977	\$ 93,267	\$ 32,569	\$ 250,476	34.3 %
Residential whole loans, total or weighted average	\$ 8,139,786	\$ 8,788,168	5.81 %	256							6.6 %

December 31, 2022

(Dollars In Thousands)	Fair Value / Carrying Value	Unpaid Principal Balance ("UPB")	Weighted Average Coupon (2)	Weighted Average Term to Maturity (Months)	Weighted Average LTV Ratio (3)	Weighted Average Original FICO (4)	Aging by UPB				60+ Delinquency %
							Current	Past Due Days			
								30-59	60-89	90+	
Purchased Performing Loans:											
Non-QM loans	\$ 3,352,471	\$ 3,671,468	5.13 %	351	65 %	733	\$ 3,520,671	\$ 56,825	\$ 32,253	\$ 61,719	2.6 %
Transitional loans (1)	1,411,997	1,431,692	7.78	12	66	746	1,348,815	6,463	2,234	74,180	5.3 %
Single-family rental loans	1,375,297	1,485,967	5.74	324	69	737	1,442,095	8,431	7,978	27,463	2.4 %
Seasoned performing loans	82,884	90,843	3.31	151	30	714	84,514	993	937	4,399	5.9 %
Agency eligible investor loans	51,094	61,816	3.44	344	68	757	61,816	—	—	—	— %
Total Purchased Performing Loans	6,273,743	\$ 6,741,786	5.78 %	271							3.1 %
Purchased Credit Deteriorated Loans	\$ 448,887	\$ 554,907	4.66 %	277	63 %	N/A	\$ 403,042	\$ 48,107	\$ 16,270	\$ 87,488	18.7 %
Purchased Non-Performing Loans	\$ 796,109	\$ 884,257	5.01 %	277	68 %	N/A	\$ 444,045	\$ 89,623	\$ 40,554	\$ 310,035	39.6 %
Residential whole loans, total or weighted average	\$ 7,518,739	\$ 8,180,950	5.64 %	272							8.1 %

(1) As of June 30, 2023 Transitional loans includes \$821.5 million of loans collateralized by multi-family properties with a weighted average term to maturity of 15 months and a weighted average LTV ratio of 64%. As of December 31, 2022, Transitional loans includes \$632.3 million of loans collateralized by multi-family properties with a weighted average term to maturity of 18 months and a weighted average LTV ratio of 64%.

(2) 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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(3) 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 Transitional 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 Transitional loans, totaling \$296.1 million and \$223.2 million at June 30, 2023 and December 31, 2022, 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 69% and 70% at June 30, 2023 and December 31, 2022, 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. 60+ LTV has been calculated on a consistent basis.

(4) Excludes loans for which no Fair Isaac Corporation ("FICO") score is available.

During the three months ended December 31, 2022, Agency eligible investor loans with an unpaid principal balance of \$337.8 million were sold, realizing losses, before the impact of economic hedging gains and the reversal of previously recognized unrealized losses of \$72.3 million. In addition, in the fourth quarter of 2022, the Agency eligible investor loan securitizations were deconsolidated from the Company's financial statements which resulted in the de-recognition of Agency eligible investor loans with an unpaid principal balance of \$598.0 million. No Residential whole loans were sold during the six months ended June 30, 2023 and 2022.

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:

Six Months Ended June 30, 2023						
(Dollars In Thousands)	Non-QM Loans	Transitional Loans (1)	Single-family Rental Loans	Seasoned Performing Loans	Purchased Credit Deteriorated Loans (3)	Totals
Allowance for credit losses at December 31, 2022	\$ 7,359	\$ 5,223	\$ 1,277	\$ 48	\$ 21,407	\$ 35,314
Current provision/(reversal)	(214)	406	514	(2)	(389)	315
Write-offs	—	(2,003)	(451)	—	(113)	(2,567)
Allowance for credit losses at March 31, 2023	\$ 7,145	\$ 3,626	\$ 1,340	\$ 46	\$ 20,905	\$ 33,062
Current provision/(reversal)	(233)	999	(103)	(4)	(394)	265
Write-offs	(206)	(1,785)	—	—	(301)	(2,292)
Allowance for credit losses at June 30, 2023	\$ 6,706	\$ 2,840	\$ 1,237	\$ 42	\$ 20,210	\$ 31,035

Six Months Ended June 30, 2022						
(Dollars In Thousands)	Non-QM Loans	Transitional Loans (1)	Single-family Rental Loans	Seasoned Performing Loans	Purchased Credit Deteriorated Loans (3)	Totals
Allowance for credit losses at December 31, 2021	\$ 8,289	\$ 6,881	\$ 1,451	\$ 46	\$ 22,780	\$ 39,447
Current provision/(reversal)	(909)	(1,460)	(122)	(1)	(975)	(3,467)
Write-offs	(51)	(219)	(27)	—	(226)	(523)
Allowance for credit losses at March 31, 2022	\$ 7,329	\$ 5,202	\$ 1,302	\$ 45	\$ 21,579	\$ 35,457
Current provision/(reversal)	(199)	(23)	174	1	1,877	1,830
Write-offs	—	(118)	(184)	—	(58)	(360)
Allowance for credit losses at June 30, 2022	\$ 7,130	\$ 5,061	\$ 1,292	\$ 46	\$ 23,398	\$ 36,927

(1) In connection with Transitional loans at carrying value, the Company had unfunded commitments of \$6.0 million and \$10.1 million as of June 30, 2023 and 2022, respectively, with an allowance for credit losses of \$44,000 and \$110,000 at June 30, 2023 and 2022, respectively. Such allowance is included in "Other liabilities" in the Company's consolidated balance sheets (see Note 7).

(2) Includes \$35.2 million and \$71.9 million of loans that were assessed for credit losses based on a collateral dependent methodology as of June 30, 2023 and 2022, respectively.

(3) Includes \$55.5 million and \$63.8 million of loans that were assessed for credit losses based on a collateral dependent methodology as of June 30, 2023 and 2022, respectively.

The Company's estimates of expected losses that form the basis of the Allowance for Credit Losses include certain qualitative adjustments which have the effect of increasing expected loss estimates. These qualitative adjustments were determined based on a variety of factors, including differences between the Company's loan portfolio and the loan portfolios

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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 any residual impact of the COVID-19 pandemic, anticipated inflation and increasing market interest rates, and heightened political uncertainty. The Company's estimates of credit losses reflect the Company's expectation that the performance of its portfolio will experience higher delinquencies and defaults compared to the performance in historical periods of portfolios included in the available proxy data. Estimates of credit losses under credit losses on financial instruments ("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 June 30, 2023 and December 31, 2022 was \$192.9 million and \$195.1 million, respectively. The amortized cost basis of Purchased Credit Deteriorated Loans on nonaccrual status as of June 30, 2023 and December 31, 2022 was \$71.8 million and \$80.5 million, respectively. The fair value of Purchased Non-performing Loans on nonaccrual status as of June 30, 2023 and December 31, 2022 was \$354.1 million and \$413.1 million, respectively. During the three and six months ended June 30, 2023, the Company recognized \$3.8 million and \$7.4 million of interest income on loans on nonaccrual status, including \$2.7 million and \$5.3 million, respectively, on its portfolio of loans which were non-performing at acquisition. At June 30, 2023 and December 31, 2022, there were approximately \$57.8 million and \$71.7 million, respectively, of loans held at carrying value 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. During the three months ended June 30, 2023, the Company granted two loan modifications in its carrying value loan portfolio which gave borrowers term extensions. The average increase in weighted average life was 13 months. As of June 30, 2023, the carrying value of these loans was approximately \$165,000. As of June 30, 2023, these loans were both current.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

The following table presents certain additional credit-related information regarding our Residential whole loans, at Carrying Value:

(Dollars In Thousands)	Amortized Cost Basis by Origination Year and LTV Bands						
	2023	2022	2021	2020	2019	Prior	Total
Non-QM loans							
LTV <= 80% (1)	\$ —	\$ —	\$ 45,509	\$ 176,737	\$ 428,804	\$ 237,126	\$ 888,176
LTV > 80% (1)	—	—	1,401	12,770	4,499	5,980	24,650
Total Non-QM loans	\$ —	\$ —	\$ 46,910	\$ 189,507	\$ 433,303	\$ 243,106	\$ 912,826
Six Months Ended June 30, 2023 Gross write-offs	\$ —	\$ —	\$ —	\$ 71	\$ 25	\$ 110	\$ 206
Transitional loans							
LTV <= 80% (1)	\$ —	\$ —	\$ 729	\$ 3,915	\$ 24,475	\$ 10,118	\$ 39,237
LTV > 80% (1)	—	—	—	—	3,190	—	3,190
Total Transitional loans	\$ —	\$ —	\$ 729	\$ 3,915	\$ 27,665	\$ 10,118	\$ 42,427
Six Months Ended June 30, 2023 Gross write-offs	\$ —	\$ —	\$ —	\$ 47	\$ 2,560	\$ 1,181	\$ 3,788
Single-family rental loans							
LTV <= 80% (1)	\$ —	\$ —	\$ 12,685	\$ 22,232	\$ 109,019	\$ 45,948	\$ 189,884
LTV > 80% (1)	—	—	—	—	1,811	85	1,896
Total Single family rental loans	\$ —	\$ —	\$ 12,685	\$ 22,232	\$ 110,830	\$ 46,033	\$ 191,780
Six Months Ended June 30, 2023 Gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ 451	\$ —	\$ 451
Seasoned performing loans							
LTV <= 80% (1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 72,915	\$ 72,915
LTV > 80% (1)	—	—	—	—	—	2,474	2,474
Total Seasoned performing loans	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 75,389	\$ 75,389
Six Months Ended June 30, 2023 Gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Purchased credit deteriorated loans							
LTV <= 80% (1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 365,515	\$ 365,515
LTV > 80% (1)	—	—	—	—	—	82,851	82,851
Total Purchased credit deteriorated loans	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 448,366	\$ 448,366
Six Months Ended June 30, 2023 Gross write-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 414	\$ 414
Total LTV <= 80% (1)	\$ —	\$ —	\$ 58,923	\$ 202,884	\$ 562,298	\$ 731,622	\$ 1,555,727
Total LTV > 80% (1)	—	—	1,401	12,770	9,500	91,390	115,061
Total residential whole loans, at carrying value	\$ —	\$ —	\$ 60,324	\$ 215,654	\$ 571,798	\$ 823,012	\$ 1,670,788
Six Months Ended June 30, 2023 Total Gross write-offs	\$ —	\$ —	\$ —	\$ 118	\$ 3,036	\$ 1,705	\$ 4,859

(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 Transitional 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 Transitional loans, totaling \$296.1 million at June 30, 2023, 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 69% at June 30, 2023. Certain low value loans secured by vacant lots are categorized as LTV > 80%.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

The following tables present certain information regarding the LTVs of the Company's Residential whole loans that are 60 days or more delinquent:

(Dollars In Thousands)	June 30, 2023		
	Carrying Value / Fair Value	UPB	LTV (1)
Purchased Performing Loans			
Non-QM loans	\$ 93,842	\$ 95,784	66.3 %
Transitional loans	68,110	71,788	67.2 %
Single-family rental loans	36,540	37,763	71.9 %
Seasoned performing loans	3,185	3,179	37.5 %
Agency eligible investor loans	836	993	73.0 %
Total Purchased Performing Loans	\$ 202,513	\$ 209,507	
Purchased Credit Deteriorated Loans	\$ 70,727	\$ 88,539	72.6 %
Purchased Non-Performing Loans	\$ 266,954	\$ 283,045	76.3 %
Total Residential Whole Loans	\$ 540,194	\$ 581,091	

(Dollars In Thousands)	December 31, 2022		
	Carrying Value / Fair Value	UPB	LTV (1)
Purchased Performing Loans			
Non-QM loans	\$ 93,508	\$ 93,972	66.7 %
Transitional loans	75,449	76,415	68.1 %
Single-family rental loans	34,653	35,441	72.1 %
Seasoned performing loans	5,049	5,336	41.7 %
Agency eligible investor loans	—	—	— %
Total Purchased Performing Loans	\$ 208,659	\$ 211,164	
Purchased Credit Deteriorated Loans	\$ 83,172	\$ 103,758	72.5 %
Purchased Non-Performing Loans	\$ 330,810	\$ 350,589	75.6 %
Total Residential Whole Loans	\$ 622,641	\$ 665,511	

(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 Transitional 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 Transitional 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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

The following tables present the components of interest income on the Company's Residential whole loans for the three and six months ended June 30, 2023 and 2022:

(In Thousands)	Held at Carrying Value		Held at Fair Value		Total	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
	2023	2022	2023	2022	2023	2022
Purchased Performing Loans:						
Non-QM loans	\$ 11,646	\$ 12,255	\$ 33,872	\$ 22,257	\$ 45,518	\$ 34,512
Transitional loans	518	1,271	32,103	13,917	32,621	15,188
Single-family rental loans	2,880	3,783	20,261	12,630	23,141	16,413
Seasoned performing loans	1,127	1,155	—	—	1,127	1,155
Agency eligible investor loans	—	—	518	7,604	518	7,604
Total Purchased Performing Loans	\$ 16,171	\$ 18,464	\$ 86,754	\$ 56,408	\$ 102,925	\$ 74,872
Purchased Credit Deteriorated Loans	\$ 8,087	\$ 8,672	\$ —	\$ —	\$ 8,087	\$ 8,672
Purchased Non-Performing Loans	\$ —	\$ —	\$ 17,036	\$ 18,810	\$ 17,036	\$ 18,810
Total Residential Whole Loans	\$ 24,258	\$ 27,136	\$ 103,790	\$ 75,218	\$ 128,048	\$ 102,354

(In Thousands)	Held at Carrying Value		Held at Fair Value		Total	
	Six Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022	2023	2022
Purchased Performing Loans:						
Non-QM loans	\$ 24,320	\$ 25,395	\$ 65,287	\$ 42,068	\$ 89,607	\$ 67,463
Transitional loans	1,138	4,837	59,709	25,210	60,847	30,047
Single-family rental loans	5,859	8,476	38,596	21,263	44,455	29,739
Seasoned performing loans	2,216	2,165	—	—	2,216	2,165
Agency eligible investor loans	—	—	3,375	15,189	3,375	15,189
Total Purchased Performing Loans	\$ 33,533	\$ 40,873	\$ 166,967	\$ 103,730	\$ 200,500	\$ 144,603
Purchased Credit Deteriorated Loans	\$ 15,225	\$ 17,681	\$ —	\$ —	\$ 15,225	\$ 17,681
Purchased Non-Performing Loans	\$ —	\$ —	\$ 31,832	\$ 39,536	\$ 31,832	\$ 39,536
Total Residential Whole Loans	\$ 48,758	\$ 58,554	\$ 198,799	\$ 143,266	\$ 247,557	\$ 201,820

4. Securities, at Fair Value

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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

The following table presents certain information regarding the composition of our Agency MBS portfolio as of June 30, 2023:

(Dollars in Thousands)	June 30, 2023					
	Current Face	Weighted Average Purchase Price	Weighted Average Market Price	Fair Value	Weighted Average Loan Age (Months)	CPR (1)
30-Year Fixed Rate:						
5.00% Coupon	\$ 77,662	100.2 %	98.0 %	\$ 76,147	3	6.0 %
5.50% Coupon	290,178	100.4	99.7	289,196	5	8.6
6.00% Coupon	30,629	100.8	101.0	30,948	0	—
Total	\$ 398,469	100.4 %	99.5 %	\$ 396,291	4	8.0 %

(1) Reflects the average of the 1 month CPR for the number of months the security was held during the most recent 3 month period.

Term Notes Backed by MSR Collateral

At June 30, 2023 and December 31, 2022, the Company had \$91.2 million and \$97.9 million, respectively, of term notes issued by SPVs that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. Payment of principal and interest on these term notes is considered to be largely dependent on cash flows generated by the underlying MSRs, as this impacts the cash flows available to the SPV that issued the term notes.

At June 30, 2023, these term notes had an amortized cost of \$89.0 million, gross unrealized gains of \$2.9 million and gross unrealized losses of \$688,000, a weighted average yield of 16.2% and a weighted average term to maturity of 0.3 years. At December 31, 2022, the term notes had an amortized cost of \$86.4 million, gross unrealized gains of approximately \$11.5 million, a weighted average yield of 14.3% and a weighted average term to maturity of 0.8 years. The issuer of the notes has a one-time option to extend the maturity of the notes for an additional two years, subject to satisfaction of certain conditions. If the notes are extended, the issuer would also be subject to a step-up fee that would increase the return on the 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. At June 30, 2023 and December 31, 2022, the Company had \$82.5 million and \$79.2 million, respectively, of CRT securities. 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 6).

Non-Agency MBS

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. At June 30, 2023, and December 31, 2022, the Company had \$24.3 million and \$24.6 million, respectively, of Non-Agency MBS. These securities were acquired on the de-consolidation of certain trusts that held previously securitized Agency Eligible investor loans.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

The following tables present certain information about the Company's Agency MBS and other Securities, at June 30, 2023 and December 31, 2022:

June 30, 2023

(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
Agency MBS	\$ 398,469	\$ 1,723	\$ (67)	\$ —	\$ 400,125	\$ 64	\$ (3,898)	\$ (3,834)	\$ 396,291
Other Securities (2)(3)(4)	214,358	20,815	(5,934)	(46,330)	182,909	15,864	(770)	15,094	198,003
Total residential mortgage securities (2)(3)(4)	<u>\$ 612,827</u>	<u>\$ 22,538</u>	<u>\$ (6,001)</u>	<u>\$ (46,330)</u>	<u>\$ 583,034</u>	<u>\$ 15,928</u>	<u>\$ (4,668)</u>	<u>\$ 11,260</u>	<u>\$ 594,294</u>

December 31, 2022

(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
Agency MBS	\$ 131,165	\$ 860	\$ —	\$ —	\$ 132,025	\$ —	\$ (325)	\$ (325)	\$ 131,700
Other Securities (2)(3)(4)	215,649	18,344	(6,272)	(46,332)	181,389	21,473	(1,198)	20,275	201,664
Total residential mortgage securities (2)(3)(4)	<u>\$ 346,814</u>	<u>\$ 19,204</u>	<u>\$ (6,272)</u>	<u>\$ (46,332)</u>	<u>\$ 313,414</u>	<u>\$ 21,473</u>	<u>\$ (1,523)</u>	<u>\$ 19,950</u>	<u>\$ 333,364</u>

(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) Amounts disclosed at June 30, 2023 includes CRT securities with a fair value of \$50.9 million for which the fair value option has been elected. Such securities had approximately \$1.5 million gross unrealized gains and no gross unrealized losses at June 30, 2023. Amounts disclosed at December 31, 2022 includes CRT securities with a fair value of \$48.6 million for which the fair value option has been elected. Such securities had gross unrealized gains of approximately \$131,000 and gross unrealized losses of approximately \$1.2 million at December 31, 2022.

(4) Amounts disclosed at June 30, 2023 include Non-Agency MBS with a fair value of \$24.3 million for which the fair value option had been elected. Such securities had approximately \$275,000 gross unrealized gains and \$82,000 gross unrealized losses at June 30, 2023. Amounts disclosed at December 31, 2022 include Non-Agency MBS with a fair value of \$24.6 million for which the fair value option has been elected. Such securities had no gross unrealized gains and no gross unrealized losses at December 31, 2022.

Sales of Residential Mortgage Securities

During the six months ended June 30, 2023, the Company did not sell any of its residential mortgage securities. During the six months ended June 30, 2022, the Company sold a CRT security for approximately \$369,000, realizing a gain of \$13,000.

Unrealized Losses on Residential Mortgage Securities

Gross unrealized losses on the Company's AFS securities at June 30, 2023 were \$688,000. The Company has no plans to dispose of any securities that were in an unrealized loss position and has determined that such losses are not indicative of impairment for the securities.

There were no allowances for credit losses recorded with respect to the Company's AFS securities for any of the periods presented. The Company did not recognize an allowance for credit losses through earnings related to its AFS securities for the three and six months ended June 30, 2023 and 2022.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

Impact of AFS Securities on AOCI

The following table presents the impact of the Company's AFS securities on its AOCI for the three and six months ended June 30, 2023 and 2022:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
AOCI from AFS securities:				
Unrealized gain on AFS securities at beginning of period	\$ 20,225	\$ 41,856	\$ 21,341	\$ 46,833
Unrealized (losses) on securities available-for-sale	(6,805)	(4,937)	(7,921)	(9,914)
Change in AOCI from AFS securities	(6,805)	(4,937)	(7,921)	(9,914)
Balance at end of period	<u>\$ 13,420</u>	<u>\$ 36,919</u>	<u>\$ 13,420</u>	<u>\$ 36,919</u>

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 and six months ended June 30, 2023 and 2022:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Agency MBS				
Coupon interest	\$ 4,471	\$ —	\$ 6,522	\$ —
Effective yield adjustment (1)(2)	(45)	—	(76)	—
Interest income	<u>\$ 4,426</u>	<u>\$ —</u>	<u>\$ 6,446</u>	<u>\$ —</u>
Other MBS				
Coupon interest	\$ 2,025	\$ 1,055	\$ 3,936	\$ 1,950
Effective yield adjustment (1)(2)	28	1,006	217	2,272
Interest income	<u>\$ 2,053</u>	<u>\$ 2,061</u>	<u>\$ 4,153</u>	<u>\$ 4,222</u>
Term notes backed by MSR collateral				
Coupon interest	\$ 2,100	\$ 1,419	\$ 4,063	\$ 2,576
Effective yield adjustment (2)	1,369	1,814	2,594	3,771
Interest income	<u>\$ 3,469</u>	<u>\$ 3,233</u>	<u>\$ 6,657</u>	<u>\$ 6,347</u>

(1) Includes amortization of premium paid net of accretion of purchase discount. 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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

5. Other Assets

The following table presents the components of the Company's Other assets at June 30, 2023 and December 31, 2022:

(In Thousands)	June 30, 2023	December 31, 2022
Receivable for sale of unsettled residential whole loans	\$ —	\$ 275,656
REO	119,996	130,605
Goodwill	61,076	61,076
Intangibles, net (1)	9,600	12,200
Capital contributions made to loan origination partners	27,437	28,308
Other interest-earning assets	70,473	63,964
Interest receivable	79,490	68,704
Other loan related receivables	25,745	23,463
Lease Right-of-Use Asset (2)	38,340	39,459
Other	66,598	62,786
Total Other Assets	\$ 498,755	\$ 766,221

(1) Net of aggregate accumulated amortization of \$18.4 million and \$15.8 million as of June 30, 2023 and December 31, 2022, respectively.

(2) An estimated incremental borrowing rate of 7.5% was used in connection with the Company's primary operating lease (see Notes 2 and 9).

(a) Real Estate Owned

At June 30, 2023, the Company had 338 REO properties with an aggregate carrying value of \$120.0 million. At December 31, 2022, the Company had 388 REO properties with an aggregate carrying value of \$130.6 million.

At June 30, 2023, \$119.6 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 \$89.0 million of residential whole loans held at carrying value and \$238.2 million of residential whole loans held at fair value at June 30, 2023.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

The following table presents the activity in the Company's REO for the three and six months ended June 30, 2023 and 2022:

(Dollars In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 121,215	\$ 145,568	\$ 130,605	\$ 156,223
Adjustments to record at lower of cost or fair value	(1,800)	(324)	(2,853)	(772)
Transfer from residential whole loans	28,256	23,138	49,181	45,217
Purchases and capital improvements, net	118	277	256	629
Disposals and other (1)	(27,793)	(32,812)	(57,193)	(65,450)
Balance at end of period	<u>\$ 119,996</u>	<u>\$ 135,847</u>	<u>\$ 119,996</u>	<u>\$ 135,847</u>
Number of properties	338	438	338	438

(1) During the three and six months ended June 30, 2023, the Company sold 95 and 194 REO properties for consideration of \$31.7 million and \$65.5 million, realizing net gains of approximately \$4.0 million and \$9.0 million, respectively. During the three and six months ended June 30, 2022, the Company sold 124 and 259 REO properties for consideration of \$39.6 million and \$81.2 million, realizing net gains of approximately \$3.9 million and \$6.1 million, respectively. These amounts are included in Other Income, net on the Company's consolidated statements of operations.

(b) Goodwill and Intangible Assets

On July 1, 2021, the Company completed the acquisition of Lima One. In connection with the acquisition of Lima One, the Company identified and recorded goodwill of \$61.1 million and finite-lived intangible assets totaling \$28.0 million.

The amortization period for each of the finite lived intangible assets and the activity for the six months ended June 30, 2023 is summarized in the table below:

(Dollars in Thousands)	Carrying Value at December 31, 2022	Amortization Six Months Ended June 30, 2023	Carrying Value at June 30, 2023	Amortization Period (Years) (1)
Trademarks / Trade Names	\$ 3,400	\$ (200)	\$ 3,200	10
Customer Relationships	6,000	(2,000)	4,000	4
Internally Developed Software	2,800	(400)	2,400	5
Total Identified Intangibles	<u>\$ 12,200</u>	<u>\$ (2,600)</u>	<u>\$ 9,600</u>	

(1) Amortization is calculated on a straight-line basis over the amortization period, except for Customer Relationships, where amortization is calculated based on expected levels of customer attrition.

(c) 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 the Company sources residential mortgage loans through both flow arrangements and bulk purchases. At June 30, 2023, the carrying value of these investments (including adjustments for impairments or mark-to-market changes) was \$27.4 million, including \$3.4 million of common equity (including partnership interests) and \$24.0 million of preferred equity.

The Company did not record any impairment charges to earnings on its investments in loan origination partners during the three and six months ended June 30, 2023. During the three and six months ended June 30, 2022, the Company recorded an impairment charge in earnings of \$28.6 million against the carrying value of its investment in one loan origination partner, bringing the net carrying value of this investment to zero at June 30, 2022.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

For certain of the Company's investments, the interests acquired to date by the Company generally do not have a readily determinable fair value. Consequently, the Company accounts for these 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. In addition, for certain partners, options or warrants have also been acquired that provide the Company the ability to increase the level of its 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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(d) Derivative Instruments

Swaps

The Company's derivative instruments include Swaps, which are used to economically hedge the interest rate risk associated with certain borrowings. Pursuant to these arrangements, the Company agreed to pay a fixed rate of interest and receive a variable interest rate, generally based on the Secured Overnight Financing Rate ("SOFR"), on the notional amount of the Swap. At June 30, 2023, none of the Company's Swaps were designated as hedges for accounting purposes.

The following table presents the assets pledged as collateral against the Company's Swaps at June 30, 2023, and December 31, 2022:

(In Thousands)	June 30, 2023	December 31, 2022
Restricted Cash	\$ 55,672	\$ 60,764

At June 30, 2023, the Company had Swaps with an aggregate notional amount of \$3.0 billion and an average maturity of approximately 36 months with a maximum term of approximately 72 months.

The following table presents information about the Company's Swaps at June 30, 2023, and December 31, 2022:

Maturity (1)	June 30, 2023			December 31, 2022		
	Notional Amount	Weighted Average Fixed-Pay Interest Rate	Weighted Average Variable Interest Rate (2)	Notional Amount	Weighted Average Fixed-Pay Interest Rate	Weighted Average Variable Interest Rate (2)
(Dollars in Thousands)						
Within 30 days to 12 months	\$ —	— %	— %	\$ —	— %	— %
Over 6 months to 12 months	100,000	1.49	5.09	—	—	—
Over 12 months to 24 months	1,125,010	1.27	5.09	550,010	1.01	4.30
Over 24 months to 36 months	—	—	—	775,000	1.75	4.30
Over 36 months to 48 months	1,425,000	1.53	5.09	450,000	1.12	4.30
Over 48 months to 60 months	—	—	—	1,075,000	1.86	4.30
Over 60 months to 72 months	310,000	2.95	5.09	—	—	—
Over 72 months to 84 months	—	—	—	310,000	2.95	4.30
Total Swaps	<u>\$ 2,960,010</u>	<u>1.58 %</u>	<u>5.09 %</u>	<u>\$ 3,160,010</u>	<u>1.69 %</u>	<u>4.30 %</u>

(1) Each maturity category reflects contractual amortization and/or maturity of notional amounts.

(2) Reflects the benchmark variable rate due from the counterparty at the date presented. This rate adjusts daily based on SOFR.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

Impact of Derivative Instruments on Earnings

The following table present the components of Net (loss)/gain on derivatives used for risk management purposes for the years ended June 30, 2023 and 2022, which is presented in Other income in the consolidated statements of operations:

(In Thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	2022	2023	2022
Income on swap variable receive leg	\$ 37,784	\$ 4,899	\$ 71,635	\$ 5,306
Expense on swap fixed pay leg	(11,819)	(9,172)	(23,853)	(15,108)
Unrealized mark-to-market (loss)/gain	37,018	31,767	(3,729)	112,521
Net price alignment expense on margin collateral received	(2,532)	—	(4,810)	—
Net gain on TBA short positions	—	20,310	—	39,186
Total Net (loss)/gain on derivatives used for risk management purposes	<u>\$ 60,451</u>	<u>\$ 47,804</u>	<u>\$ 39,243</u>	<u>\$ 141,905</u>

6. Financing Agreements

The following tables present the components of, and certain information with respect to, the Company's Financing agreements at June 30, 2023 and December 31, 2022:

(In Thousands)	Collateral	June 30, 2023			
		Unpaid Principal Balance	Fair Value / Carrying Value (1)	Weighted Average Cost of Funding (2)	Weighted Average Term to Maturity (Months)
Agreements with mark-to-market collateral provisions	Residential Whole Loans and REO	\$ 1,939,310	\$ 1,938,380	7.17 %	9.1
Agreements with mark-to-market collateral provisions	Securities	464,064	464,064	5.67 %	0.5
Total Agreements with mark-to-market collateral provisions		2,403,374	2,402,444	6.87 %	
Agreements with non-mark-to-market collateral provisions	Residential Whole Loans and REO	968,546	967,884	7.61 %	13.3
Securitized debt	Residential Whole Loans	4,187,578	3,969,274	3.88 %	See Note 14
Convertible senior notes	Unsecured	229,989	228,575	6.94 %	11.5
Impact of net Swap carry				(1.38)%	
Total Financing agreements (2)		<u>\$ 7,789,487</u>	<u>\$ 7,568,177</u>	<u>3.96 %</u>	

(In Thousands)	Collateral	December 31, 2022			
		Unpaid Principal Balance	Fair Value / Carrying Value (1)	Weighted Average Cost of Funding (2)	Weighted Average Term to Maturity (Months)
Agreements with mark-to-market collateral provisions	Residential Whole Loans and REO	\$ 2,111,647	\$ 2,111,396	5.74 %	6.9
Agreements with mark-to-market collateral provisions	Securities	111,651	111,651	5.47 %	1.5
Total Agreements with mark-to-market collateral provisions		2,223,298	2,223,047	5.73 %	
Agreements with non-mark-to-market collateral provisions	Residential Whole Loans and REO	1,004,260	1,003,604	6.53 %	16.8
Securitized debt	Residential Whole Loans	3,586,397	3,357,590	3.33 %	See Note 14
Convertible senior notes	Unsecured	229,989	227,845	6.94 %	17.5
Impact of net Swap carry				(0.84)%	
Total Financing agreements (2)		<u>\$ 7,043,944</u>	<u>\$ 6,812,086</u>	<u>3.70 %</u>	

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

- (1) The Company has both financing agreements held at fair value and financings agreements held at their carrying value (amortized cost basis). Financing agreements held at fair value are reported at estimated fair value each period as a result of the Company's fair value option election. The fair value option was not elected for financing agreements held at carrying value. Consequently, Total financing agreements as presented reflects a summation of balances reported at fair and carrying value. At June 30, 2023, the Company had \$553.2 million of agreements with mark-to-market collateral provisions held at fair value, \$440.1 million of agreements with non-mark-to-market collateral provisions held at fair value, and \$3.1 billion of securitized debt held at fair value, with amortized cost bases of \$553.2 million, \$440.1 million, and \$3.3 billion, respectively. At December 31, 2022, the Company had \$884.5 million of agreements with mark-to-market collateral provisions held at fair value, \$578.9 million of agreements with non-mark-to-market collateral provisions held at fair value, and \$2.4 billion of securitized debt held at fair value, with amortized cost bases of \$884.5 million, \$578.9 million, and \$2.6 billion, respectively.
- (2) Weighted average cost of funding reflects annualized quarter-to-date interest expense divided by average balance for the financing agreements. The cost of funding for the total financing agreements includes the impact of the net carry (the difference between swap interest income received and swap interest expense paid) on the Company's Swaps. For the quarter ended June 30, 2023, this decreased the overall funding cost by 138 basis points, and for the quarter ended December 31, 2022, this decreased the overall funding cost by 84 basis points. The Company does not allocate the impact of the net carry by type of financing agreement.

The following table presents maturities with respect to the Company's financing agreements with mark-to-market and non-mark-to-market collateral provisions:

		As of June 30, 2023					
		Unpaid Principal Balance, Maturing In					
(In Thousands)	Collateral	0-3 Months (1)	3-6 Months	6-12 Months	Greater than 12 Months (2)	Total	
Agreements with mark-to-market collateral provisions	Residential Whole Loans	\$ 401,591	\$ 88,389	\$ 480,381	\$ 968,949	\$ 1,939,310	
Agreements with mark-to-market collateral provisions	Securities	464,064	—	—	—	464,064	
Total Agreements with mark-to-market collateral provisions		865,655	88,389	480,381	968,949	2,403,374	
Agreements with non-mark-to-market collateral provisions	Residential Whole Loans	491,160	13,033	—	464,353	968,546	

- (1) \$681.1 million of the mark-to-market agreements (included in the 0-3 months category) can be terminated by either party.
- (2) Amounts presented are based on the assumed exercise of the Company's unilateral option to extend by one year the maturity of an Agreement with mark-market collateral provisions with \$311.2 million outstanding.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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 June 30, 2023 and December 31, 2022:

(Dollars in Thousands)	June 30, 2023	December 31, 2022
Mark-to-market financing agreements secured by residential whole loans	\$ 1,909,699	\$ 2,095,002
Fair value of residential whole loans pledged as collateral under financing agreements	\$ 2,441,356	\$ 2,632,489
Weighted average haircut on residential whole loans (1)	20.11 %	18.33 %
Mark-to-market financing agreements secured by securities at fair value	\$ 464,064	\$ 111,651
Securities at fair value pledged as collateral under financing agreements	\$ 543,400	\$ 177,111
Weighted average haircut on securities at fair value (1)	12.23 %	37.43 %
Mark-to-market financing agreements secured by real estate owned	\$ 28,681	\$ 16,394
Fair value of real estate owned pledged as collateral under financing agreements	\$ 59,919	\$ 33,367
Weighted average haircut on real estate owned (1)	50.39 %	48.07 %

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

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 June 30, 2023 and December 31, 2022:

(Dollars in Thousands)	June 30, 2023	December 31, 2022
Non-mark-to-market financing secured by residential whole loans	\$ 967,884	\$ 994,494
Fair value of residential whole loans pledged as collateral under financing agreements	\$ 1,184,587	\$ 1,301,685
Weighted average haircut on residential whole loans	17.35 %	21.43 %
Non-mark-to-market financing secured by real estate owned	\$ —	\$ 9,109
Fair value of real estate owned pledged as collateral under financing agreements	\$ —	\$ 22,902
Weighted average haircut on real estate owned	— %	60.23 %

In addition, the Company had aggregate restricted cash held in connection with its financing agreements of \$19.6 million and \$16.0 million at June 30, 2023 and December 31, 2022, 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 June 30, 2023 and December 31, 2022:

Time Until Interest Rate Reset	June 30, 2023		December 31, 2022	
	Amortized Cost Basis	Weighted Average Interest Rate	Amortized Cost Basis	Weighted Average Interest Rate
(Dollars in Thousands)				
Within 30 days	\$ 3,135,319	7.20 %	\$ 3,060,111	6.60 %
Over 30 days to 3 months	236,602	6.51	167,447	6.19
Over 3 months to 12 months	—	—	—	—
Over 12 months	—	—	—	—
Total financing agreements	\$ 3,371,921	7.15 %	\$ 3,227,558	6.58 %

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(a) Other Information on Financing Agreements*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 a conversion rate of 31.4346 shares (which reflects an adjustment resulting from the Company's Reverse Stock Split) of the Company's common stock for each \$1,000 principal amount of the Convertible Senior Notes, which is equivalent to a conversion price of approximately \$31.81 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 (i) 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 (ii) equal in right of payment to the Company's existing and future senior unsecured obligations, if any.

(b) Counterparties

The Company had financing agreements, including repurchase agreements and other forms of secured financing, with 14 and 12 counterparties at June 30, 2023 and December 31, 2022, 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 June 30, 2023:

Counterparty (Dollars in Thousands)	June 30, 2023		
	Amount at Risk (1)	Weighted Average Months to Repurchasing for Repurchase Agreements	Percent of Stockholders' Equity
Wells Fargo	\$ 267,784	1	13.8 %
Barclays Bank	192,258	1	9.9
Atlas Securitized Products, L.P.	107,587	1	5.5
Goldman Sachs Bank	100,225	1	5.2
Churchill Finance LLC	98,574	1	5.1

(1) 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 assets pledged by the Company as collateral, including accrued interest receivable on such assets.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(c) Pledged Collateral

The following tables present the Company's assets (based on carrying value) pledged as collateral for its various financing arrangements as of June 30, 2023 and December 31, 2022:

(In Thousands)	June 30, 2023			
	Financing Agreements			
	Non-Mark-to-Market (1)	Mark-to-Market (1)	Securitized	Total
Assets:				
Residential whole loans, at carrying value	\$ 65,527	\$ 364,419	\$ 1,233,089	\$ 1,663,035
Residential whole loans, at fair value	1,121,567	1,781,344	3,555,923	6,458,834
Securities, at fair value	—	543,400	—	543,400
Other assets: REO	—	52,376	30,374	82,750
Total	\$ 1,187,094	\$ 2,741,539	\$ 4,819,386	\$ 8,748,019

(In Thousands)	December 31, 2022			
	Financing Agreements			
	Non-Mark-to-Market (1)	Mark-to-Market (1)	Securitized	Total
Assets:				
Residential whole loans, at carrying value	\$ 215,993	\$ 284,683	\$ 1,314,104	\$ 1,814,780
Residential whole loans, at fair value	1,095,556	2,164,158	2,720,757	5,980,471
Securities, at fair value	—	177,111	—	177,111
Other assets: REO	19,837	28,490	36,486	84,813
Total	\$ 1,331,386	\$ 2,654,442	\$ 4,071,347	\$ 8,057,175

(1) An aggregate of \$31.7 million and \$30.9 million of accrued interest on those assets pledged against non-mark-to-market and mark-to-market financings agreements had also been pledged as of June 30, 2023 and December 31, 2022, respectively.

The Company pledges securities or cash as collateral to its counterparties in relation to certain of its financing arrangements. The Company exchanges collateral with its counterparties based on changes in the fair value, notional amount and term of the associated financing arrangements and Swaps, 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 also described in Notes 2(e) - Restricted Cash and 5(d) - Derivative Instruments.

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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

7. Other Liabilities

The following table presents the components of the Company's Other liabilities at June 30, 2023 and December 31, 2022:

(In Thousands)	June 30, 2023	December 31, 2022
Payable for purchase of unsettled Agency MBS	\$ 30,931	\$ 132,026
Dividends and dividend equivalents payable	35,789	35,769
Lease liability	44,123	45,314
Accrued interest payable	25,057	23,040
Accrued expenses and other	87,385	75,321
Total Other Liabilities	<u>\$ 223,285</u>	<u>\$ 311,470</u>

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

8. 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 at the REIT level 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. The Company’s objective is to distribute 100% of its REIT taxable income to its stockholders within the permitted timeframe. 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 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. 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.

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 June 30, 2023, December 31, 2022 or June 30, 2022. As of the date of this filing, the Company’s tax returns for tax years 2019 through 2022 are open to examination.

The tax effects of temporary differences that give rise to significant portions of net deferred tax assets (“DTAs”) recorded at the Company’s domestic TRS entities at June 30, 2023 and December 31, 2022 are presented in the following table:

(In Thousands)	June 30, 2023	December 31, 2022
Deferred tax assets (DTAs):		
Net operating loss and tax credit carryforwards	\$ 105,792	\$ 97,655
Unrealized mark-to-market, impairments and loss provisions	14,787	12,609
Other realized / unrealized treatment differences	(42,011)	(28,620)
Total deferred tax assets	78,568	81,644
Less: valuation allowance	(78,568)	(81,644)
Net deferred tax assets	\$ —	\$ —

Realization of the Company’s DTAs at June 30, 2023 is dependent on several factors, including generating sufficient taxable income prior to the expiration of net operating loss (“NOL”) carryforwards and generating sufficient capital gains in future periods prior to the expiration of capital loss carryforwards. The Company determines the extent to which realization of the deferred assets is not expected to be more likely than not and establishes a valuation allowance accordingly.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

No net deferred tax benefit was recorded by the Company for the three and six months ended June 30, 2023 and 2022, related to the net taxable losses in TRS entities, since a valuation allowance for the full amount of the associated deferred tax asset at the ends of those periods was recognized as its recovery was not considered more likely than not. The related NOL carryforwards generated prior to 2018 will begin to expire in 2037; those generated in 2018 and later can be carried forward indefinitely, until fully utilized. The Company's estimate of net DTAs could change in future periods to the extent that actual or revised estimates of future taxable income change from current expectations.

At June 30, 2023, the Company's federal NOL carryforward from prior years was \$382.6 million, which may be carried forward indefinitely. If certain substantial changes in the Company's ownership occur, there could be an annual limitation on the amount of the carryforwards that can be utilized.

The income tax provision/(benefit) is included in Other general and administrative expense in the Company's consolidated statements of operations. The following table summarizes the Company's income tax provision/(benefit) primarily recorded at the Company's domestic TRS entities for the three and six months ended June 30, 2023 and 2022:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Current provision/(benefit)				
Federal	\$ (286)	\$ 38	\$ (420)	\$ 143
State	(71)	184	(125)	209
Total current provision/(benefit)	(357)	222	(545)	352
Deferred provision/(benefit)				
Federal	—	120	589	270
State	—	15	155	65
Total deferred provision/(benefit)	—	135	744	335
Total provision/(benefit)	\$ (357)	\$ 357	\$ 199	\$ 687

The following is a reconciliation of the statutory federal tax rate to the Company's effective tax rate at June 30, 2023 and 2022:

	Six Months Ended	
	June 30, 2023	June 30, 2022
Federal statutory rate	21.0 %	21.0 %
Non-taxable REIT income (dividends paid deduction)	(32.6)%	2.9 %
Other differences in taxable income (loss) from GAAP	23.0 %	(17.0)%
State and local taxes	— %	— %
Change in valuation allowance on DTAs	(11.0)%	(7.1)%
Effective tax rate	0.4 %	(0.2)%

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

9. Commitments and Contingencies

(a) Lease Commitments

The Company's primary lease commitment relates to its corporate headquarters. For the three and six months ended June 30, 2023, the Company recorded an expense of approximately \$1.5 million and \$2.7 million, respectively, in connection with this lease. The original term specified in this lease is approximately fifteen years with a termination date of December 2036 and an option to renew for an additional five years.

At June 30, 2023, the contractual minimum rental payments (exclusive of possible rent escalation charges and normal recurring charges for maintenance, insurance and taxes) regarding the Company's lease commitments were as follows:

Year Ending December 31, (In Thousands)	Minimum Rental Payments
2023 (1)	\$ 2,876
2024	5,751
2025	4,888
2026	4,776
2027	5,055
Thereafter	46,999
Total	<u>\$ 70,345</u>

(1) Reflects contractual minimum rental payments due for the period from July 1, 2023 through December 31, 2023.

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

In connection with the loan securitization and sale transactions entered into by the Company, the Company has the obligation under certain circumstances to repurchase assets previously transferred to securitization vehicles, or otherwise sold, upon breach of certain representations and warranties. As of June 30, 2023, the Company was not aware of any material unsettled repurchase claims that would require a reserve (see Note 14).

(c) Transitional Loan Commitments

At June 30, 2023, the Company had unfunded commitments of \$587.2 million in connection with its Transitional loans (see Note 3).

10. 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 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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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, 2022 through June 30, 2023:

Declaration Date	Record Date	Payment Date	Dividend Per Share
May 22, 2023	June 5, 2023	June 30, 2023	\$0.46875
February 21, 2023	March 6, 2023	March 31, 2023	\$0.46875

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. In light of the discontinuance of the publication of three-month LIBOR after June 2023 and pursuant to the terms of the Series C Preferred Stock, the Company will, prior to March 31, 2025, appoint a calculation agent to select an industry accepted substitute or successor base rate to the three-month LIBOR rate. The calculation agent may also implement changes to the business day convention, the definition of business day, the dividend determination date, the interest rate spread and the method for obtaining the substitute or successor base rate, in a manner that is consistent with industry accepted practices. In March 2022, Congress enacted a federal statute that provides a safe harbor for those, like the calculation agent, that are contractually responsible for determining LIBOR replacements under certain circumstances, which the Company expects will apply to the Series C Preferred Stock. The Federal Reserve is required to promulgate rules under this statute which, once final, the Company expects will affect the selection of an industry accepted substitute or successor base rate under the terms of the Series C Preferred Stock. Although the Company has not yet appointed a calculation agent and a substitute or successor base rate has not yet been selected, it is the Company's present expectation that three-month SOFR (Secured Overnight Financing Rate) would be the substitute or successor base rate to three-month LIBOR. 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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

The following table presents cash dividends declared by the Company on its Series C Preferred Stock from January 1, 2022 through June 30, 2023:

Declaration Date	Record Date	Payment Date	Dividend Per Share
May 22, 2023	June 5, 2023	June 30, 2023	\$0.40625
February 21, 2023	March 6, 2023	March 31, 2023	0.40625

(b) Dividends on Common Stock

The following table presents cash dividends declared by the Company on its common stock from January 1, 2022 through June 30, 2023:

Declaration Date	Record Date	Payment Date	Dividend Per Share
June 15, 2023	June 30, 2023	July 31, 2023	\$0.350 ⁽¹⁾
March 10, 2023	March 31, 2023	April 28, 2023	0.350

(1) At June 30, 2023, the Company had accrued dividends and dividend equivalents payable of \$35.8 million related to the common stock dividend declared on June 15, 2023.

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

On September 27, 2022, 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 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 registered an aggregate of 2.0 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 June 30, 2023, approximately 2.0 million shares of common stock remained available for issuance pursuant to the DRSPP shelf registration statement.

During the three and six months ended June 30, 2023, the Company issued 3,440 and 6,666 shares of common stock through the DRSPP, raising net proceeds of approximately \$37,000 and \$74,000, respectively. From the inception of the DRSPP in September 2003 through June 30, 2023, the Company issued 8,848,219 shares pursuant to the DRSPP, raising net proceeds of \$290.8 million.

(d) Stock Repurchase Program

On March 11, 2022, the Company’s Board authorized a stock repurchase program under which the Company may repurchase up to \$250 million of its common stock through the end of 2023. The Board’s authorization superseded and replaced the authorization under a prior stock repurchase program that had been adopted in November 2020, which also authorized the Company to repurchase up to \$250 million.

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 stock 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 10b5-1 promulgated under the Exchange Act of 1934, as amended (the “Exchange Act”).

The Company did not repurchase any shares of its common stock during the six months ended June 30, 2023. During the three and six months ended June 30, 2022, the Company repurchased 3,280,977 and 6,476,746 shares of its common stock through the stock repurchase program at an average cost of \$14.48 and \$15.80 per share and a total cost of approximately \$47.5 million and \$102.1 million, net of fees and commissions paid to the sales agent of approximately \$33,000 and \$161,000,

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

respectively. As of June 30, 2023, approximately \$202.5 million remained available under the current authorization for the purchase of common stock under the stock repurchase program.

(e) Accumulated Other Comprehensive Income/(Loss)

The following table presents changes in the balances of each component of the Company's AOCI for the three and six months ended June 30, 2023:

(In Thousands)	Three Months Ended June 30, 2023			Six Months Ended June 30, 2023		
	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized Gain/(Loss) on Financing Agreements (1)	Total AOCI	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized Gain/(Loss) on Financing Agreements (1)	Total AOCI
Balance at beginning of period	\$ 20,225	\$ —	\$ 20,225	\$ 21,341	\$ —	\$ 21,341
OCI before reclassifications	(6,805)	—	(6,805)	(7,921)	—	(7,921)
Amounts reclassified from AOCI	—	—	—	—	—	—
Net OCI during the period (2)	(6,805)	—	(6,805)	(7,921)	—	(7,921)
Balance at end of period	\$ 13,420	\$ —	\$ 13,420	\$ 13,420	\$ —	\$ 13,420

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

(2) For further information regarding changes in OCI, see the Company's consolidated statements of comprehensive income/(loss).

The following table presents changes in the balances of each component of the Company's AOCI for the three and six months ended June 30, 2022:

(In Thousands)	Three Months Ended June 30, 2022			Six Months Ended June 30, 2022		
	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized Gain/(Loss) on Financing Agreements (1)	Total AOCI	Net Unrealized Gain/(Loss) on AFS Securities	Net Unrealized Gain/(Loss) on Financing Agreements (1)	Total AOCI
Balance at beginning of period	\$ 41,856	\$ —	\$ 41,856	\$ 46,833	\$ (1,255)	\$ 45,578
OCI before reclassifications	(4,937)	—	(4,937)	(9,914)	1,255	(8,659)
Amounts reclassified from AOCI	—	—	—	—	—	—
Net OCI during the period (2)	(4,937)	—	(4,937)	(9,914)	1,255	(8,659)
Balance at end of period	\$ 36,919	\$ —	\$ 36,919	\$ 36,919	\$ —	\$ 36,919

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

(2) For further information regarding changes in OCI, see the Company's consolidated statements of comprehensive income/(loss).

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

11. EPS Calculation

The following table presents a reconciliation of the (loss)/earnings and shares used in calculating basic and diluted (loss)/earnings per share for the three and six months ended June 30, 2023 and 2022:

(In Thousands, Except Per Share Amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Basic (Loss)/Earnings per Share:				
Net (loss)/income	\$ (25,928)	\$ (100,367)	\$ 46,856	\$ (183,273)
Dividends declared on preferred stock	(8,218)	(8,219)	(16,437)	(16,438)
Dividends, dividend equivalents and undistributed earnings allocated to participating securities	(119)	(174)	(206)	(315)
Net (loss)/income available to common stockholders - basic	<u>\$ (34,265)</u>	<u>\$ (108,760)</u>	<u>\$ 30,213</u>	<u>\$ (200,026)</u>
Basic weighted average common shares outstanding	101,915	102,515	101,907	104,531
Basic (Loss)/Earnings per Share	<u>\$ (0.34)</u>	<u>\$ (1.06)</u>	<u>\$ 0.30</u>	<u>\$ (1.91)</u>
Diluted (Loss)/Earnings per Share:				
Net (loss)/income available to common stockholders - basic	\$ (34,265)	\$ (108,760)	\$ 30,213	\$ (200,026)
Dividends, dividend equivalents and undistributed earnings allocated to participating securities	—	—	206	—
Net (loss)/income available to common stockholders - diluted	<u>\$ (34,265)</u>	<u>\$ (108,760)</u>	<u>\$ 30,419</u>	<u>\$ (200,026)</u>
Basic weighted average common shares outstanding	101,915	102,515	101,907	104,531
Effect of assumed conversion of Convertible Senior Notes to common shares	—	—	—	—
Unvested and vested restricted stock units	—	—	1,771	—
Diluted weighted average common shares outstanding (1)	<u>101,915</u>	<u>102,515</u>	<u>103,678</u>	<u>104,531</u>
Diluted (Loss)/Earnings per Share	<u>\$ (0.34)</u>	<u>\$ (1.06)</u>	<u>\$ 0.29</u>	<u>\$ (1.91)</u>

(1) At June 30, 2023, the Company had approximately 3.6 million equity instruments outstanding that were included in the calculation of diluted EPS for the six months ended June 30, 2023. These equity instruments reflect RSUs (based on current estimate of expected share settlement amount) with a weighted average grant date fair value of \$12.09. These equity instruments may continue to have a dilutive impact on future EPS.

During the six months ended June 30, 2023, the Convertible Senior Notes were determined to be anti-dilutive and were excluded from 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) are included in the denominator for the purpose of calculating diluted EPS. The Convertible Senior Notes may have a dilutive impact on future EPS.

12. 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 6, 2023 (and which amended and restated the Company’s 2020 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 8.5 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 June 30, 2023, approximately 5.2 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

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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 6, 2033.

Restricted Stock Units

Under the terms of the Equity Plan, RSUs are instruments that provide the holder with the right to receive, subject to the satisfaction of conditions set by the Compensation Committee at the time of grant, a payment of a specified value, which may be a share of the Company’s common stock, the fair market value of a share of the Company’s common stock, or such fair market value to the extent in excess of an established base value, on the applicable settlement date. Although the Equity Plan permits the Company to issue RSUs that can settle in cash, all of the Company’s outstanding RSUs as of June 30, 2023 are designated to be settled in shares of the Company’s common stock. The Company granted 90,388 and 1,608,063 RSUs during the three and six months ended June 30, 2023 and granted 74,251 and 677,776 RSUs during the three and six months ended June 30, 2022, respectively. There were 27,413 RSUs forfeited during the three and six months ended June 30, 2023 and 29,693 RSUs forfeited during the three and six months ended June 30, 2022. All holders of RSUs outstanding at June 30, 2023 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 at the time settlement of the RSU award, or for performance-based RSU awards, as a grant of stock at the time such awards are settled. At June 30, 2023 and December 31, 2022, the Company had unrecognized compensation expense of \$18.1 million and \$11.2 million, respectively, related to RSUs. The unrecognized compensation expense at June 30, 2023, is expected to be recognized over a weighted average period of 2.0 years.

Restricted Stock

The Company did not grant any shares of restricted common stock during the six months ended June 30, 2023 and 2022. At June 30, 2023, the Company did not have any 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 typically 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. Dividend equivalent payments 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 \$119,000 and \$206,000 during the three and six months ended June 30, 2023, respectively, and approximately \$141,000 and \$311,000 during the three and six months ended June 30, 2022, respectively. In addition, no dividend equivalents rights awarded as separate instruments were granted during the six months ended June 30, 2023 and 2022.

Expense Recognized for Equity-Based Compensation Instruments

The following table presents the Company’s expenses related to its equity-based compensation instruments for the three and six months ended June 30, 2023 and 2022:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
RSUs	\$ 3,932	\$ 3,540	\$ 6,952	\$ 6,185
Total	\$ 3,932	\$ 3,540	\$ 6,952	\$ 6,185

(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

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

shares of the Company's common stock. Deferred compensation liabilities are settled in cash at the termination of the deferral period, based on the value of the stock units at that time. The Deferred Plans are non-qualified plans under the Employee Retirement Income Security Act of 1974 and, as such, are not funded. Prior to the time that the deferred accounts are settled, participants are unsecured creditors of the Company.

The Company's liability for stock units in the Deferred Plans is based on the market price of the Company's common stock at the measurement date. The following table presents the Company's expenses related to its Deferred Plans for the three and six months ended June 30, 2023 and 2022:

(In Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Non-employee directors	\$ 305	\$ (839)	\$ 414	\$ (1,117)
Total	\$ 305	\$ (839)	\$ 414	\$ (1,117)

The following table presents the aggregate amount of income deferred by participants of the Deferred Plans through June 30, 2023 and December 31, 2022 that had not been distributed and the Company's associated liability for such deferrals at June 30, 2023 and December 31, 2022:

(In Thousands)	June 30, 2023		December 31, 2022	
	Undistributed Income Deferred (1)	Liability Under Deferred Plans	Undistributed Income Deferred (1)	Liability Under Deferred Plans
Non-employee directors	\$ 2,491	\$ 2,112	\$ 2,923	\$ 1,953
Total	\$ 2,491	\$ 2,112	\$ 2,923	\$ 1,953

(1) Represents the cumulative amounts that were deferred by participants through June 30, 2023 and December 31, 2022, which had not been distributed through such respective date.

13. 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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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 third parties that specialize 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; however, the Company determined that the market inputs used in valuing its Agency eligible investor loans were sufficiently observable to be classified as Level 2.

Securities, at Fair Value

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. Valuations of TBA securities positions are based on executed levels for positions entered into and subsequently rolled forward, as well as prices obtained from pricing services for outstanding positions at each reporting date. These valuations are assessed for reasonableness by considering market TBA levels observed via Bloomberg for the same coupon and term to maturity. 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.

Term Notes Backed by MSR Collateral

The Company's valuation process for term notes backed by MSR 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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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.

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.

Swaps

Variation margin payments on the Company's Swaps are treated as a legal settlement of the exposure under the related Swap contract, the effect of which reduces what would have otherwise been reported as the fair value of the Swap, generally to zero.

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

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

The following tables present the Company's financial instruments carried at fair value on a recurring basis as of June 30, 2023 and December 31, 2022, on the consolidated balance sheets by the valuation hierarchy, as previously described:

Fair Value at June 30, 2023

(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Residential whole loans, at fair value	\$ —	\$ 58,068	\$ 6,441,964	\$ 6,500,032
Securities, at fair value	—	594,294	—	594,294
Total assets carried at fair value	<u>\$ —</u>	<u>\$ 652,362</u>	<u>\$ 6,441,964</u>	<u>\$ 7,094,326</u>
Liabilities:				
Agreements with non-mark-to-market collateral provisions	\$ —	\$ —	\$ 440,106	\$ 440,106
Agreements with mark-to-market collateral provisions	—	—	553,162	553,162
Securitized debt	—	3,123,478	—	3,123,478
Total liabilities carried at fair value	<u>\$ —</u>	<u>\$ 3,123,478</u>	<u>\$ 993,268</u>	<u>\$ 4,116,746</u>

Fair Value at December 31, 2022

(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Residential whole loans, at fair value	\$ —	\$ 51,094	\$ 5,676,430	\$ 5,727,524
Securities, at fair value	—	333,364	—	333,364
Total assets carried at fair value	<u>\$ —</u>	<u>\$ 384,458</u>	<u>\$ 5,676,430</u>	<u>\$ 6,060,888</u>
Liabilities:				
Agreements with non-mark-to-market collateral provisions	\$ —	\$ —	\$ 578,879	\$ 578,879
Agreements with mark-to-market collateral provisions	—	—	884,495	884,495
Securitized debt	—	2,435,370	—	2,435,370
Total liabilities carried at fair value	<u>\$ —</u>	<u>\$ 2,435,370</u>	<u>\$ 1,463,374</u>	<u>\$ 3,898,744</u>

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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

The following table presents additional information for the three and six months ended June 30, 2023 and 2022 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 6,013,378	\$ 4,956,772	\$ 5,676,430	\$ 4,222,584
Purchases and originations (1)	734,748	674,202	1,071,563	1,788,245
Draws	132,914	82,482	251,991	143,822
Changes in fair value recorded in Net gain/(loss) on residential whole loans measured at fair value through earnings	(129,797)	(158,507)	(2,193)	(381,919)
Repayments	(293,792)	(280,662)	(527,226)	(482,747)
Loan sales	(900)	(8,949)	(1,477)	(10,496)
Transfer to REO	(14,586)	(13,290)	(27,123)	(27,441)
Balance at end of period	<u>\$ 6,441,965</u>	<u>\$ 5,252,048</u>	<u>\$ 6,441,965</u>	<u>\$ 5,252,048</u>

(1) Excluded from the table above are approximately \$28.9 million of Residential whole loans, at fair value for which the Company committed to purchase during the three months ended March 31, 2022, but for which the closing of the purchase transaction occurred during the three months ended June 30, 2022.

The following table presents additional information for the three and six months ended June 30, 2023 and 2022 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 526,623	\$ 563,860	\$ 578,879	\$ 628,280
Issuances	126,565	—	272,395	—
Payment of principal	(213,082)	(121,977)	(411,168)	(185,142)
Change in unrealized losses	—	—	—	(1,255)
Balance at end of period	<u>\$ 440,106</u>	<u>\$ 441,883</u>	<u>\$ 440,106</u>	<u>\$ 441,883</u>

The following table presents additional information for the three and six months ended June 30, 2023 and 2022 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 680,708	\$ 1,555,250	\$ 884,495	\$ 1,322,362
Issuances	9,463	401,122	22,018	870,606
Payment of principal	(137,009)	(522,515)	(353,351)	(759,111)
Changes in unrealized losses	—	—	—	—
Balance at end of period	<u>\$ 553,162</u>	<u>\$ 1,433,857</u>	<u>\$ 553,162</u>	<u>\$ 1,433,857</u>

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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 June 30, 2023 and December 31, 2022:

(Dollars in Thousands)	June 30, 2023				
	Fair Value (1)	Valuation Technique	Unobservable Input	Weighted Average (2)	Range
Purchased Non-Performing Loans	\$ 537,510	Discounted cash flow	Discount rate	7.1 %	6.3-11.0%
			Prepayment rate	7.6 %	0.0-29.1%
			Default rate	2.8 %	0.0-30.7%
			Loss severity	10.1 %	0.0-100.0%
	\$ 201,679	Liquidation model	Discount rate	8.0 %	8.0-8.0%
			Annual change in home prices	3.5 %	(3.1)-12.0%
			Liquidation timeline (in years)	1.9	0.1-4.5
			Current value of underlying properties (3)	\$ 787	\$28-\$4,720
Total	\$ 739,189				

(Dollars in Thousands)	December 31, 2022				
	Fair Value (1)	Valuation Technique	Unobservable Input	Weighted Average (2)	Range
Purchased Non-Performing Loans	\$ 546,675	Discounted cash flow	Discount rate	7.0 %	6.3-10.0%
			Prepayment rate	8.9 %	0.0-33.5%
			Default rate	3.7 %	0.0-52.4%
			Loss severity	11.3 %	0.0-100.0%
	\$ 249,219	Liquidation model	Discount rate	7.8 %	7.8-7.8%
			Annual change in home prices	6.9 %	(5.4)-59.7%
			Liquidation timeline (in years)	1.9	0.1-4.5
			Current value of underlying properties (3)	\$ 743	\$28-\$4,000
Total	\$ 795,894				

(1) Excludes approximately \$523,000 and \$215,000 of loans for which management considers the purchase price continues to reflect the fair value of such loans at June 30, 2023 and December 31, 2022, 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 \$472,000 and \$457,000 as of June 30, 2023 and December 31, 2022, respectively.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(Dollars in Thousands)	June 30, 2023				
	Fair Value (1)	Valuation Technique	Unobservable Input	Weighted Average (2)	Range
Purchased Performing Loans	\$ 5,634,049	Discounted cash flow	Discount rate	8.0 %	6.5-45.5%
			Prepayment rate	9.2 %	0.0-41.9%
			Default rate	0.9 %	0.0-26.0%
			Loss severity	11.0 %	0.0-100.0%
	\$ 68,204	Liquidation model	Discount rate	8.0 %	8.0-8.0%
			Annual change in home prices	2.2 %	(3.2)-8.7%
			Liquidation timeline (in years)	1.8	0.8-4.2
			Current value of underlying properties	\$ 1,607	\$44-\$4,500
Total	\$ 5,702,253				

(Dollars in Thousands)	December 31, 2022				
	Fair Value	Valuation Technique	Unobservable Input	Weighted Average (2)	Range
Purchased Performing Loans	\$ 4,857,587	Discounted cash flow	Discount rate	7.6 %	5.6-22.7%
			Prepayment rate	7.9 %	0.0-44.8%
			Default rate	0.8 %	0.0-19.4%
			Loss severity	7.3 %	0.0-100.0%
	\$ 22,734	Liquidation model	Discount rate	7.8 %	7.8%-7.8%
			Annual change in home prices	3.2 %	(1.0)%-10.7%
			Liquidation timeline (in years)	1.9	0.8-4.2
			Current value of underlying properties	\$ 1,319	\$50-\$2,850
Total	\$ 4,880,321				

(1) Excludes approximately \$39.0 million of loans for which management considers the purchase price continues to reflect the fair value of such loans at June 30, 2023.

(2) Amounts are weighted based on the fair value of the underlying loan.

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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

The following table presents the carrying values and estimated fair values of the Company's financial instruments at June 30, 2023 and December 31, 2022:

(In Thousands)	June 30, 2023	June 30, 2023		December 31, 2022	
	Level in Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets:					
Residential whole loans	3	\$ 8,081,718	\$ 8,023,447	\$ 7,467,645	\$ 7,397,421
Residential whole loans	2	58,068	58,068	51,094	51,094
Securities, at fair value	2	594,294	594,294	333,364	333,364
Cash and cash equivalents	1	329,391	329,391	334,183	334,183
Restricted cash	1	174,005	174,005	159,898	159,898
Financial Liabilities (1):					
Financing agreements with non-mark-to-market collateral provisions	3	967,884	968,546	1,003,604	1,004,260
Financing agreements with mark-to-market collateral provisions	3	1,938,379	1,939,310	2,111,396	2,111,647
Financing agreements with mark-to-market collateral provisions	2	464,064	464,064	111,651	111,651
Securitized debt (2)	2	3,969,274	3,839,491	3,357,590	3,217,905
Convertible senior notes	2	228,575	220,071	227,845	211,015

(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.

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 six months ended June 30, 2023 and 2022, the Company recorded REO with an aggregate estimated fair value, less estimated cost to sell, of \$49.2 million and \$45.2 million, respectively, at the time of foreclosure. The Company classifies fair value measurements of REO as Level 3 in the fair value hierarchy.

14. 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.

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

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 consolidated loan securitization transactions currently outstanding as of June 30, 2023 and December 31, 2022:

(Dollars in Thousands)	June 30, 2023	December 31, 2022
Aggregate unpaid principal balance of residential whole loans sold	\$ 7,119,527	\$ 6,079,749
Face amount of Senior Bonds issued by the VIE and purchased by third-party investors	\$ 6,165,095	\$ 5,333,090
Outstanding amount of Senior Bonds, at carrying value	\$ 845,796 (1)	\$ 922,220 (1)
Outstanding amount of Senior Bonds, at fair value	\$ 3,123,478	\$ 2,435,370
Outstanding amount of Senior Bonds, total	\$ 3,969,274	\$ 3,357,590
Weighted average fixed rate for Senior Bonds issued	3.85 % (2)	3.38 % (2)
Weighted average contractual maturity of Senior Bonds	37 years (2)	38 years (2)
Face amount of Senior Support Certificates received by the Company (3)	\$ 919,974	\$ 715,640
Cash received	\$ 6,103,771	\$ 5,286,305

(1) Net of \$2.0 million and \$2.9 million of deferred financing costs at June 30, 2023 and December 31, 2022, respectively.

(2) At June 30, 2023 and December 31, 2022, \$2.6 billion and \$1.9 million, respectively, of Senior Bonds sold in securitization transactions contained a contractual coupon step-up feature whereby the coupon increases by either 100, 200, or 300 basis points or more at defined dates ranging from 24 months, up to 48 months from issuance if the bond is not redeemed before such date.

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

During the three and six months ended June 30, 2023, the Company issued Senior Bonds with a current face of \$308.8 million and \$832.0 million to third-party investors for proceeds of \$296.4 million and \$817.5 million, respectively, before offering costs and accrued interest. The Senior Bonds issued by the Company during the three months ended June 30, 2023 are included in “Financing agreements, at fair value” (at carrying value) on the Company’s consolidated balance sheets (see Note 6).

As of June 30, 2023 and December 31, 2022, as a result of the transactions described above, securitized loans of approximately \$4.8 billion and \$4.0 billion are included in “Residential whole loans” and REO with a carrying value of approximately \$30.4 million and \$36.5 million are included in “Other assets” on the Company’s consolidated balance sheets, respectively. As of June 30, 2023 and December 31, 2022, the aggregate carrying value of Senior Bonds issued by consolidated VIEs was \$4.0 billion and \$3.4 billion, respectively. These Senior Bonds are disclosed as “Securitized debt” and are included in Financing agreements 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

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

- 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 June 30, 2023 and December 31, 2022 are a total of \$8.1 billion and \$7.5 billion, respectively, of residential whole loans. These assets, excluding certain loans originated and held by Lima One, 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)).

15. Segment Reporting

At June 30, 2023, the Company's reportable segments include (i) mortgage-related assets and (ii) Lima One. The Corporate column in the table below primarily consists of corporate cash and related interest income, investments in loan originators and related economics, general and administrative expenses not directly attributable to Lima One, interest expense on unsecured convertible senior notes (see Note 6), securitization issuance costs, and preferred stock dividends.

The following tables summarize segment financial information, which in total reconciles to the same data for the Company as a whole:

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(Dollars in Thousands)	Mortgage-Related Assets	Lima One	Corporate	Total
Three months ended June 30, 2023				
Interest Income	\$ 89,912	\$ 51,308	\$ 3,130	\$ 144,350
Interest Expense	58,940	36,943	3,962	99,845
Net Interest Income/(Expense)	\$ 30,972	\$ 14,365	\$ (832)	\$ 44,505
Provision for Credit Losses on Residential Whole Loans	(294)	—	—	(294)
Net Interest Income/(Expense) after Provision for Credit Losses	\$ 30,678	\$ 14,365	\$ (832)	\$ 44,211
Net loss on residential whole loans measured at fair value through earnings	\$ (97,459)	\$ (33,244)	\$ —	\$ (130,703)
Impairment and other net loss on securities and other portfolio investments	(3,697)	—	(872)	(4,569)
Net gain/(loss) on real estate owned	2,493	(340)	—	2,153
Net gain on derivatives used for risk management purposes	45,142	15,309	—	60,451
Net gain on securitized debt measured at fair value through earnings	18,887	8,507	—	27,394
Lima One - origination, servicing and other fee income	—	11,477	—	11,477
Other, net	3,812	1,076	608	5,496
Total Other (Loss)/Income, net	\$ (30,822)	\$ 2,785	\$ (264)	\$ (28,301)
General and administrative expenses (including compensation)	\$ —	\$ 15,601	\$ 17,339	\$ 32,940
Loan servicing, financing, and other related costs	5,395	131	2,072	7,598
Amortization of intangible assets	—	1,300	—	1,300
Net (Loss)/Income	\$ (5,539)	\$ 118	\$ (20,507)	\$ (25,928)
Less Preferred Stock Dividend Requirement	\$ —	\$ —	\$ 8,218	\$ 8,218
Net (Loss)/Income Available to Common Stock and Participating Securities	\$ (5,539)	\$ 118	\$ (28,725)	\$ (34,146)

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(Dollars in Thousands)	Mortgage-Related Assets	Lima One	Corporate	Total
Three months ended June 30, 2022				
Interest Income	\$ 84,732	\$ 24,353	\$ 236	109,321
Interest Expense	39,889	12,916	3,937	56,742
Net Interest Income/(Expense)	\$ 44,843	\$ 11,437	\$ (3,701)	\$ 52,579
Provision for Credit Losses on Residential Whole Loans	\$ (1,785)	\$ (32)	\$ —	(1,817)
Provision for Credit Losses on Other Assets	—	—	(28,579)	(28,579)
Net Interest Income/(Expense) after Provision for Credit Losses	\$ 43,058	\$ 11,405	\$ (32,280)	\$ 22,183
Net loss on residential whole loans measured at fair value through earnings	\$ (177,203)	\$ (40,978)	\$ —	\$ (218,181)
Impairment and other net loss on securities and other portfolio investments	(1,463)	—	(10,583)	(12,046)
Net gain on real estate owned	7,150	35	—	7,185
Net gain on derivatives used for risk management purposes	44,161	3,643	—	47,804
Net gain on securitized debt measured at fair value through earnings	64,966	19,607	—	84,573
Lima One - origination, servicing and other fee income	—	10,673	—	10,673
Other, net	2,598	(26)	972	3,544
Total Other Loss, net	\$ (59,791)	\$ (7,046)	\$ (9,611)	\$ (76,448)
General and administrative expenses (including compensation)	\$ —	\$ 13,013	\$ 16,554	\$ 29,567
Loan servicing, financing, and other related costs	6,513	323	6,399	13,235
Amortization of intangible assets	—	3,300	—	3,300
Net Loss	\$ (23,246)	\$ (12,277)	\$ (64,844)	\$ (100,367)
Less Preferred Stock Dividend Requirement	\$ —	\$ —	\$ 8,219	\$ 8,219
Net Loss Available to Common Stock and Participating Securities	\$ (23,246)	\$ (12,277)	\$ (73,063)	\$ (108,586)

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(Dollars in Thousands)	Mortgage-Related Assets	Lima One	Corporate	Total
Six months ended June 30, 2023				
Interest Income	\$ 174,732	\$ 95,828	\$ 5,995	\$ 276,555
Interest Expense	116,017	68,747	7,917	192,681
Net Interest Income/(Expense)	\$ 58,715	\$ 27,081	\$ (1,922)	\$ 83,874
(Provision)/Reversal of Provision for Credit Losses on Residential Whole Loans	(595)	314	—	(281)
Net Interest Income/(Expense) after (Provision)/Reversal of Provision for Credit Losses	\$ 58,120	\$ 27,395	\$ (1,922)	\$ 83,593
Net (loss)/gain on residential whole loans measured at fair value through earnings	\$ (1,949)	\$ 420	\$ —	\$ (1,529)
Impairment and other net loss on securities and other portfolio investments	(767)	—	(871)	(1,638)
Net gain/(loss) on real estate owned	6,417	(322)	—	6,095
Net gain on derivatives used for risk management purposes	28,820	10,423	—	39,243
Net loss on securitized debt measured at fair value through earnings	(15,933)	(8,398)	—	(24,331)
Lima One - origination, servicing and other fee income	—	20,453	—	20,453
Other, net	6,020	1,447	1,201	8,668
Total Other Income, net	\$ 22,608	\$ 24,023	\$ 330	\$ 46,961
General and administrative expenses (including compensation)	\$ —	\$ 28,136	\$ 35,825	\$ 63,961
Loan servicing, financing, and other related costs	10,114	350	6,673	17,137
Amortization of intangible assets	—	2,600	—	2,600
Net Income/(Loss)	\$ 70,614	\$ 20,332	\$ (44,090)	\$ 46,856
Less Preferred Stock Dividend Requirement	\$ —	\$ —	\$ 16,437	\$ 16,437
Net Income/(Loss) Available to Common Stock and Participating Securities	\$ 70,614	\$ 20,332	\$ (60,527)	\$ 30,419

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

(Dollars in Thousands)	Mortgage-Related Assets	Lima One	Corporate	Total
Six months ended June 30, 2022				
Interest Income	\$ 173,554	\$ 41,853	\$ 263	\$ 215,670
Interest Expense	72,898	19,272	7,868	100,038
Net Interest Income/(Expense)	\$ 100,656	\$ 22,581	\$ (7,605)	\$ 115,632
Reversal of Provision/(Provision) for Credit Losses on Residential Whole Loans	1,731	(37)	—	1,694
Provision for Credit Losses on Other Assets	—	—	(28,579)	(28,579)
Net Interest Income/(Expense) after Reversal of Provision/(Provision) for Credit Losses	\$ 102,387	\$ 22,544	\$ (36,184)	\$ 88,747
Net loss on residential whole loans measured at fair value through earnings	\$ (430,330)	\$ (75,786)	\$ —	\$ (506,116)
Impairment and other net loss on securities and other portfolio investments	(4,384)	—	(11,363)	(15,747)
Net gain on real estate owned	15,885	32	—	15,917
Net gain on derivatives used for risk management purposes	130,396	11,509	—	141,905
Net gain on securitized debt measured at fair value through earnings	122,545	26,145	—	148,690
Lima One - origination, servicing and other fee income	—	25,167	—	25,167
Other, net	3,917	28	2,275	6,220
Total Other Loss, net	\$ (161,971)	\$ (12,905)	\$ (9,088)	\$ (183,964)
General and administrative expenses (including compensation)	\$ —	\$ 25,232	\$ 32,588	\$ 57,820
Loan servicing, financing, and other related costs	13,445	559	9,632	23,636
Amortization of intangible assets	—	6,600	—	6,600
Net Loss	\$ (73,029)	\$ (22,752)	\$ (87,492)	\$ (183,273)
Less Preferred Stock Dividend Requirement	\$ —	\$ —	\$ 16,438	\$ 16,438
Net Loss Available to Common Stock and Participating Securities	\$ (73,029)	\$ (22,752)	\$ (103,930)	\$ (199,711)

(Dollars in Thousands)	Mortgage-Related Assets	Lima One	Corporate	Total
June 30, 2023				
Total Assets	\$ 6,183,728	\$ 3,156,741	\$ 395,762	\$ 9,736,231
December 31, 2022				
Total Assets	\$ 6,065,557	\$ 2,618,695	\$ 428,153	\$ 9,112,405

Lima One Segment

On July 1, 2021, the Company completed the acquisition of Lima One Holdings, LLC, the parent company of Lima One Capital, LLC (collectively, “Lima One”), a leading originator and servicer of business purpose loans.

The Lima One segment includes the stand-alone mortgage origination and servicing business of Lima One, including related goodwill, intangible assets, and direct expenses, plus Lima One-related residential whole loans and REO (defined as both those owned by Lima One on the acquisition date and those originated by Lima One since the acquisition date) and the economics related thereto (including any related taxes and the economics of associated financing and hedging instruments), all

MFA FINANCIAL, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023

as recorded under GAAP. Associated financing economics are equal to the results of direct financings of Lima One-related residential whole loans and REO plus allocations of the results of financings which include Lima One related residential whole loans and REO as part of their collateral, based on the relative carrying values of the financed assets. Associated hedging economics are equal to allocations of the Company's overall hedging results based on the relative estimated duration of each asset class hedged and the relative fair values of assets within each asset class.

Mortgage-Related Assets Segment

This segment is comprised of the remainder of the Company's investments (including any related taxes and the economics of associated financing and hedging instruments).

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, 2022.

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. Among the important factors that could cause our actual results to differ materially from those projected in any forward-looking statements we make are: general economic developments and trends and the performance of the housing, real estate, mortgage finance, broader financial markets; inflation, increases in interest rates and changes in the market (i.e., fair) value of our residential whole loans, MBS, securitized debt and other assets, as well as changes in the value of our liabilities accounted for at fair value through earnings; the effectiveness of hedging transactions; 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 our portfolio and could require us to reinvest the proceeds received by us 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; targeted or expected returns on our investments in recently-originated mortgage 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 costs associated with such investments; risks associated with the ongoing operation of Lima One Holdings, LLC (including, without limitation, unanticipated expenditures relating to or liabilities arising from its operation (including, among other things, a failure to realize management's assumptions regarding expected growth in business purpose loan (BPL) origination volumes and credit risks underlying BPLs, including changes in the default rates and management's assumptions regarding default rates on the BPLs originated by Lima One)); 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; 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 generally, including changes in business conditions and the general economy; and other risks, uncertainties and factors, including those described in the annual, quarterly and current reports that we file with the SEC. All

forward-looking statements are based on beliefs, assumptions and expectations of our future performance, taking into account all information currently available. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Business/General

We are a specialty finance company that invests in and finances residential mortgage assets. We invest, on a leveraged basis, in residential whole loans, residential mortgage securities and other real estate assets. Through our wholly-owned subsidiary, Lima One, a leading nationwide originator and servicer of business purpose loans (or BPLs), we also originate and service business purpose loans for real estate investors. 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. We are an internally-managed real estate investment trust.

On April 4, 2022, we effected a one-for-four reverse stock split of our issued and outstanding shares of common stock (or the Reverse Stock Split). Accordingly, all share and per share data included in the consolidated financial statements and applicable disclosures have been adjusted retroactively to reflect the impact of the Reverse Stock Split. For all periods presented, all share and per share data have been adjusted on a retroactive basis to reflect the effect of the Reverse Stock Split.

At June 30, 2023, we had total assets of approximately \$9.7 billion, of which \$8.1 billion, or 84%, represented residential whole loans. Our residential whole loans include primarily: (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 and multi-family properties made to non-occupant borrowers that intend to rehabilitate and sell the properties (or Transitional loans), (iii) business purpose 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), (iv) loans on investor properties that conform to the standards for purchase by a federally chartered corporation, such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”) (or Agency eligible investor loans), (v) previously originated loans secured by residential real estate that is generally owner occupied (or Seasoned performing loans) and (vi) loans on which a borrower was previously delinquent but has resumed repaying (re-performing loans or RPLs) and loans on which the borrower continues to be more than 60 days delinquent with respect to payment (non-performing loans or NPLs). In addition, at June 30, 2023, we had approximately \$594.3 million in investments in securities, including Agency MBS, Term notes backed by MSR collateral, CRT securities and Non-Agency MBS. Our remaining investment-related assets, which represent approximately 3% of our total assets at June 30, 2023, were primarily comprised of REO, capital contributions made to loan origination partners, other interest-earning assets, 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, liabilities and hedges that are accounted for at fair value through earnings, 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, including certain residential whole loans, securitized debt and interest rate swap agreements (or Swaps). 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), the level of loan delinquencies, which may result in changes in the amount of non-accrual loans, and prepayment speeds, the behavior of which involves various risks and uncertainties. Interest rates and conditional prepayment rates (or CPRs) (which is an annualized measure of the amount of unscheduled principal prepayments 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 securitized debt 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, 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 securitized debt, 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, to decrease. Further, changes in credit spreads will also impact the valuation of our residential whole loans and securitized debt, which could result in volatility in GAAP earnings. 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 Purchased 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 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. Accretible purchase discounts on these investments are accreted to interest income. Premiums paid to purchase 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 prepayment rate, which measures voluntary prepayments of a loan, and the conditional default rate (or CDR) measures involuntary prepayments resulting from defaults. CPRs on our residential mortgage securities and whole loans may differ significantly. For the three months ended June 30, 2023, the average CPRs on certain of our loan portfolios were: 8.1% for Non-QM loans, 5.8% for Single-family rental loans, 7.3% for Purchased Credit Deteriorated loans, and 14.4% for Purchased Non-Performing loans. In addition, for the three months ended June 30, 2023, the repayment rate (which includes both voluntary and involuntary repayments of principal) was 42.2% for our Transitional loans.

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 non-securitization related financing liabilities, and the interest rates we pay on our non-securitization related financings 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 currently include Swaps.

Recent Market Conditions and Our Strategy

The second quarter of 2023 again exhibited significant volatility in interest rates and credit spreads. MFA continues to navigate these challenges by prioritizing liquidity and actively managing our investment portfolio. Through our strong balance sheet and Lima One (our wholly owned leading business purpose loan originator), we added nearly \$1 billion of residential whole loans and residential mortgage securities at attractive levels during the second quarter of 2023. This included \$523 million of high yielding business purpose loans funded at Lima One, a 44% increase over the prior quarter. We also purchased \$345 million of Non-QM loans and added to our Agency MBS position. While GAAP net income reflects the impact of declines in asset values primarily due to higher interest rates, Distributable Earnings, a non-GAAP financial measure that excludes the impact of fair value changes and certain other items, exceeded the second quarter common dividend. Of particular note, our net interest spread, which continues to reflect our success in acquiring assets at attractive yields and the benefits of our proactive approach to portfolio hedging, was 2.14% in the second quarter, a 40 basis point increase over the prior quarter. As noted, higher interest rates during the quarter resulted in lower mortgage loan valuations. However, the impact on our book value was relatively modest, with GAAP book value declining by approximately 5% and Economic book value by approximately 6%. Finally, we continued to be an active issuer of residential whole loan securitizations, completing our fourth transaction for the year in the second quarter.

Second quarter 2023 portfolio activity and impact on financial results

At June 30, 2023, our residential mortgage asset portfolio, which includes residential whole loans and REO, and Securities, at fair value was approximately \$8.9 billion compared to \$8.4 billion at March 31, 2023.

The following table presents the activity for our residential mortgage asset portfolio for the three months ended June 30, 2023:

(In Millions)	March 31, 2023	Runoff (1)	Acquisitions (2)	Other (3)	June 30, 2023	Change
Residential whole loans and REO	\$ 7,915	\$ (394)	\$ 868	\$ (129)	\$ 8,260	\$
Securities, at fair value	505	(10)	109	(10)	594	
Totals	\$ 8,420	\$ (404)	\$ 977	\$ (139)	\$ 8,854	\$

(1) Primarily includes principal repayments and sales of REO.

(2) Includes draws on previously originated Transitional loans.

(3) Primarily includes changes in fair value and changes in the allowance for credit losses.

At June 30, 2023, our total recorded investment in residential whole loans and REO was \$8.3 billion, or 93.3% of our residential mortgage asset portfolio. Of this amount, \$7.0 billion are Purchased Performing Loans, \$428.2 million are Purchased Credit Deteriorated Loans and \$739.7 million are Purchased Non-performing Loans. Loan acquisition activity of \$867.7 million for the three months ended June 30, 2023 included \$523.2 million of business purpose loans (including draws on Transitional loans) and \$344.5 million of Non-QM loans. For the three months ended June 30, 2023, we recognized approximately \$128.0 million of residential whole loan interest income on our consolidated statements of operations, representing an effective yield of 6.10%, with Purchased Performing Loans generating an effective yield of 5.66%, Purchased Credit Deteriorated Loans generating an effective yield of 7.09% and Purchased Non-performing Loans generating an effective yield of 10.11%. All of our Purchased Non-performing Loans and certain of our Purchased Performing Loans are measured at fair value as a result of the election of the fair value option at acquisition. Included in earnings in Other income, net are net losses on these loans of \$130.7 million for the three months ended June 30, 2023. At June 30, 2023 and March 31, 2023, we had REO with an aggregate carrying value of \$120.0 million and \$121.2 million, respectively, which is included in Other assets on our consolidated balance sheets.

At June 30, 2023, we held \$594.3 million of Securities, at fair value, including \$396.3 million of Agency MBS, \$91.2 million of MSR-related assets, \$82.5 million of CRT securities and \$24.3 million of Non-Agency MBS. We opportunistically added \$108.8 million of Agency MBS this quarter. The net yield on our Securities, at fair value was 7.67% for the three months ended June 30, 2023, compared to 8.76% for the three months ended March 31, 2023.

For the three months ended June 30, 2023, we recorded a provision for credit losses on residential whole loans held at carrying value of \$294,000. The total allowance for credit losses recorded on residential whole loans held at carrying value at June 30, 2023 was \$31.0 million.

During the second quarter of 2023, we completed one securitization collateralized by \$371.6 million of unpaid principal balance (or UPB) of Non-QM loans. This securitization provided longer term, non-recourse, non-mark-to-market financing. During the quarter, interest rates increased across the yield curve, with 2-year Treasury yields up by nearly 90 basis points, 5-Year Treasury yields up by nearly 60 basis points and 10-year yields up by nearly 40 basis points. The net impact on the value of our investment portfolio resulted in net mark-to-market losses in our GAAP financial results. We continue to closely follow the actions of the Federal Reserve regarding the path and timing of changes in interest rates and the impact such rate changes would be expected to have on levels of inflation, the overall economic environment and our business.

Our GAAP book value per common share was \$14.42 as of June 30, 2023. Book value per common share decreased from \$15.15 as of March 31, 2023. 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 or losses on our residential whole loans and securitized debt held at carrying value, was \$15.12 as of June 30, 2023, a decrease from \$16.02 as of March 31, 2023. Decreases in GAAP and Economic book value during the second quarter of 2023 primarily reflect decreases in the fair value of our Residential whole loan portfolios due to interest rate increases during the quarter. For additional information regarding the calculation of Economic book value per share, including a reconciliation to GAAP book value per share, refer to “Reconciliation of GAAP and Non-GAAP Financial Measures” below.

Information About Our Assets

The table below presents certain information about our asset allocation at June 30, 2023:

ASSET ALLOCATION							
(Dollars in Millions)	Purchased Performing Loans (1)	Purchased Credit Deteriorated Loans (2)	Purchased Non- Performing Loans	Securities, at fair value	Real Estate Owned	Other, net (3)	Total
Fair Value/Carrying Value	\$ 6,972	\$ 428	\$ 740	\$ 594	\$ 120	\$ 690	\$ 9,544
Receivable/(Payable) for Unsettled Transactions	—	—	—	(31)	—	—	(31)
Financing Agreements with Non-mark-to-market Collateral Provisions	(968)	—	—	—	—	—	(968)
Financing Agreements with Mark-to-market Collateral Provisions	(1,548)	(131)	(230)	(464)	(29)	—	(2,402)
Securitized Debt	(3,416)	(237)	(304)	—	(12)	—	(3,969)
Convertible Senior Notes	—	—	—	—	—	(229)	(229)
Net Equity Allocated	<u>\$ 1,040</u>	<u>\$ 60</u>	<u>\$ 206</u>	<u>\$ 99</u>	<u>\$ 79</u>	<u>\$ 461</u>	<u>\$ 1,945</u>
Debt/Net Equity Ratio (4)	<u>5.7 x</u>	<u>6.1 x</u>	<u>2.6 x</u>	<u>5.0 x</u>	<u>0.5 x</u>	—	<u>3.9 x</u>

(1) Includes \$3.6 billion of Non-QM loans, \$1.7 billion of Transitional loans, \$1.5 billion of Single-family rental loans, \$75.3 million of Seasoned performing loans, and \$58.1 million of Agency eligible investor loans. At June 30, 2023, the total fair value of these loans is estimated to be \$6.9 billion.

(2) At June 30, 2023, the total fair value of these loans is estimated to be \$447.5 million.

(3) Includes \$329.4 million of cash and cash equivalents, \$174.0 million of restricted cash, and \$27.4 million of capital contributions made to loan origination partners, as well as other assets and other liabilities.

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

Residential Whole Loans

The following table presents the contractual maturities of our residential whole loan portfolios at June 30, 2023. Amounts presented do not reflect estimates of prepayments or scheduled amortization.

(In Thousands)	Purchased Performing Loans (1)	Purchased Credit Deteriorated Loans (2)	Purchased Non-Performing Loans
Amount due:			
Within one year	\$ 988,366	\$ 645	\$ 1,768
After one year:			
Over one to five years	825,457	2,854	2,955
Over five years	5,168,920	444,867	734,989
Total due after one year	\$ 5,994,377	\$ 447,721	\$ 737,944
Total residential whole loans	\$ 6,982,743	\$ 448,366	\$ 739,712

(1) Excludes an allowance for credit losses of \$10.8 million at June 30, 2023.

(2) Excludes an allowance for credit losses of \$20.2 million at June 30, 2023.

The following table presents, at June 30, 2023, 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)(2)	Purchased Non-Performing Loans (1)
Interest rates:			
Fixed	\$ 4,701,392	\$ 382,358	\$ 608,678
Adjustable	1,292,985	65,363	129,266
Total	\$ 5,994,377	\$ 447,721	\$ 737,944

(1) Includes loans on which borrowers have defaulted and are not making payments of principal and/or interest as of June 30, 2023.

(2) Excludes an allowance for credit losses.

Securities, at Fair Value

The following table presents information with respect to our Securities, at fair value at June 30, 2023 and December 31, 2022:

(Dollars in Thousands)	June 30, 2023		December 31, 2022	
Agency MBS				
Face/Par	\$	398,469	\$	131,165
Fair Value		396,291		131,700
Amortized Cost		400,124		132,025
Weighted average yield (2)		5.25 %		N/A (1)
Weighted average time to maturity		29.7 years		30.0 years
Term notes backed by MSR collateral				
Face/Par	\$	105,000	\$	105,000
Fair Value		91,200		97,898
Amortized Cost		88,993		86,399
Weighted average yield (2)		16.20 %		14.30 %
Weighted average time to maturity		0.3 years		0.8 years
CRT Securities				
Face/Par	\$	80,201	\$	80,791
Fair Value		82,514		79,214
Amortized Cost		69,820		70,438
Weighted average yield (2)		9.55 %		9.96 %
Weighted average time to maturity		18.5 years		19.0 years
Non-Agency MBS				
Face/Par	\$	29,156	\$	29,858
Fair Value		24,289		24,552
Amortized Cost		24,096		24,552
Weighted average yield (2)		5.90 %		N/A (1)
Weighted average time to maturity		28.3 years		28.8 years

(1) These securities were acquired at the end of the reporting period in 2022 and, therefore, no interest income was recorded with respect to these securities in 2022.

(2) Weighted average yield is annualized interest income divided by average amortized cost for Securities, at fair value held at June 30, 2023 and December 31, 2022.

Tax Considerations

Current period estimated taxable income

We estimate that for the six months ended June 30, 2023, our REIT taxable income was approximately \$72.3 million.

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 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)

We estimate that for the six months ended June 30, 2023, our net TRS taxable loss will be \$31.9 million. Net income or loss 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. A TRS may carry forward its net taxable losses indefinitely as net operating losses to offset up to 80% of its taxable income in future years, but REIT taxable income generally does not include the net taxable loss of a TRS unless the TRS liquidates for tax purposes.

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

Regulatory Developments

The U.S. Congress, Federal Reserve, U.S. Treasury, Federal Deposit Insurance Corporation (or FDIC), the Securities and Exchange Commission (or 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 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.

On October 19, 2022, a three-judge panel of the Fifth Circuit Court of Appeals issued an opinion in *Community Financial Services Association of America, et al. v. Consumer Financial Protection Bureau, et al.*, concluding that the CFPB's funding structure unconstitutionally violates the Appropriations Clause of the U.S. Constitution. As a result, the Court vacated the payday lending rule that was the subject of challenge. Although the Fifth Circuit's decision applies only to the disputed regulation in that case, it may call into question the Bureau's authority and other rules promulgated during CFPB's self-funding structure. On February 27, 2023, the Supreme Court granted the government's petition to review the Fifth Circuit's decision in the *Community Financial* case, and it is scheduled to hear oral arguments in this matter in early October 2023. On March 23, 2023, the Second Circuit Court of Appeals declined to follow *Community Financial*, concluding in *Consumer Financial Protection Bureau v. Law Offices of Crystal Moroney* that CFPB's funding structure is constitutional. It is unclear yet what impact these rulings may have on the mortgage lending markets but they may give rise to uncertainty, particularly in those markets in the Fifth Circuit. Any such uncertainty could adversely impact the cash flow on mortgage loans.

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 (or HUD), 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. On June 23, 2021, the United States Supreme Court concluded that the structure of the FHFA (which insulated its director from removal by the President) was unconstitutional and remanded the case for further proceedings. Subsequent to the Supreme Court's ruling, President Biden dismissed the FHFA director and appointed Sandra L. Thompson, who was sworn in as the third Senate-confirmed Director of the FHFA in June 2022. The prospects for passage of any of these plans are uncertain, and the change in FHFA leadership underscores 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.

On October 27, 2021, FHFA announced that it is seeking comment on a proposed rulemaking that would introduce additional public disclosure requirements for the Enterprise Regulatory Capital Framework (or ERCF) for Fannie Mae and Freddie Mac. As proposed, the rule would implement quarterly quantitative and qualitative disclosure requirements for Fannie Mae and Freddie Mac related to regulatory capital instruments, risk-weighted assets calculated under the ERCF's standardized approach, and risk management policies and procedures. This notice of proposed rulemaking suggests the potential for enhanced regulation and reporting obligations in the mortgage and securitization industries, which in turn may further increase the economic and compliance costs for participants in the mortgage and securitization industries, including us. On February 25, 2022, FHFA announced its final rule amending the ERCF by refining the prescribed leverage buffer amount (leverage buffer) and risk-based capital treatment of retained CRT exposures for Fannie Mae and Freddie Mac. The final rule largely tracks the proposed rule. Among other things, the final rule will replace the fixed leverage buffer equal to 1.5% of each of Fannie Mae's and Freddie Mac's adjusted total assets with a dynamic leverage buffer equal to 50% of each enterprise's stability capital buffer; replace the prudential floor of 10% on the risk weight assigned to any retained CRT exposure with a prudential floor of

5% on the risk weight assigned to any retained CRT exposure; and remove the requirement that each of Fannie Mae and Freddie Mac must apply an overall effectiveness adjustment to its retained CRT exposures. The final rule went into effect on May 16, 2022.

On June 1, 2022, FHFA published a Final Rule that supplements the ERCF by requiring Fannie Mae and Freddie Mac to submit annual capital plans to the Agency and provide prior notice for certain capital actions. The final rule also incorporates the stress capital buffer determination from the ERCF into the capital planning process. Among other things, the final rule mandates that the each of Fannie Mae's and Freddie Mac's capital plans must include:

- An assessment of the expected sources and uses of capital over the planning horizon;
- Estimates of projected revenues, expenses, losses, reserves, and pro forma capital levels under a range of the enterprise's internal scenarios, as well as under FHFA's scenarios;
- A description of all planned capital actions over the planning horizon;
- A discussion of how the enterprise will, under expected and stressful conditions, maintain capital commensurate with the business risks and continue to serve the housing market; and
- A discussion of any expected changes to the enterprise's business plan that are likely to have a material impact on the enterprise's capital adequacy or liquidity.

This final rule was effective August 2, 2022.

Thus far in 2023, the FHFA has taken numerous actions including a series of pricing adjustments to the framework of upfront fees the GSEs charge lenders on single-family loans or Loan-Level Price Adjustments (LLPAs) and updates to the GSE's annual Equitable Housing Finance Plans relating to loss mitigation support, financial coaching, and other programs. The FHFA also requested comments regarding proposals to codify the FHFA's fair lending oversight requirements for the GSEs and information collection and reporting obligations for the GSEs. On March 13, 2023, the FHFA issued a notice of proposed rulemaking regarding the ERCF, including potential modifications related to guarantees on commingled securities, multifamily mortgage exposures secured by government-subsidized properties, derivatives and cleared transactions, and credit scores, among other items. As discussed above, new or modified regulatory obligations may continue to increase the economic and compliance costs for participants in the mortgage and securitization industries, including MFA.

On June 28, 2021, the CFPB Issued a Final Rule amending Regulation X under the Real Estate Settlement Procedures Act to provide additional foreclosure protections to borrowers, such as barring certain new foreclosure filings until after December 31, 2021. These mortgage servicing rules and any similar regulations passed by CFPB in the future could adversely impact the cash flow on mortgage loans.

Results of Operations

Quarter Ended June 30, 2023 Compared to the Quarter Ended March 31, 2023

The following table summarizes the changes in our results of operations for the three months ended June 30, 2023 compared to the three months ended March 31, 2023.

(In Thousands)	Three Months Ended		QoQ Change
	June 30, 2023	March 31, 2023	
Interest Income:			
Residential whole loans	\$ 128,048	\$ 119,510	\$ 8,538
Securities, at fair value	9,948	7,308	2,640
Other interest-earning assets	2,622	2,351	271
Cash and cash equivalent investments	3,732	3,036	696
Interest Income	\$ 144,350	\$ 132,205	\$ 12,145
Interest Expense:			
Asset-backed and other collateralized financing arrangements	\$ 95,884	\$ 88,880	\$ 7,004
Other interest expense	3,961	3,956	5
Interest Expense	\$ 99,845	\$ 92,836	\$ 7,009
Net Interest Income	\$ 44,505	\$ 39,369	\$ 5,136
(Provision)/Reversal of Provision for Credit Losses on Residential Whole Loans	\$ (294)	\$ 13	\$ (307)
Net Interest Income after Provision for Credit Losses	\$ 44,211	\$ 39,382	\$ 4,829
Other (Loss)/Income, net:			
Net (loss)/gain on residential whole loans measured at fair value through earnings	\$ (130,703)	\$ 129,174	\$ (259,877)
Impairment and other net (loss)/gain on securities and other portfolio investments	(4,569)	2,931	(7,500)
Net gain on real estate owned	2,153	3,942	(1,789)
Net gain/(loss) on derivatives used for risk management purposes	60,451	(21,208)	81,659
Net gain/(loss) on securitized debt measured at fair value through earnings	27,394	(51,725)	79,119
Lima One - origination, servicing and other fee income	11,477	8,976	2,501
Other, net	5,496	3,172	2,324
Other (Loss)/Income, net	\$ (28,301)	\$ 75,262	\$ (103,563)
Operating and Other Expense:			
Compensation and benefits	\$ 21,771	\$ 20,630	\$ 1,141
Other general and administrative expense	11,169	10,391	778
Loan servicing, financing and other related costs	7,598	9,539	(1,941)
Amortization of intangible assets	1,300	1,300	—
Operating and Other Expense	\$ 41,838	\$ 41,860	\$ (22)
Net (Loss)/Income	\$ (25,928)	\$ 72,784	\$ (98,712)
Less Preferred Stock Dividend Requirement	\$ 8,218	\$ 8,219	\$ (1)
Net (Loss)/Income Available to Common Stock and Participating Securities	\$ (34,146)	\$ 64,565	\$ (98,711)
Basic (Loss)/Earnings per Common Share	\$ (0.34)	\$ 0.63	\$ (0.97)
Diluted (Loss)/Earnings per Common Share	\$ (0.34)	\$ 0.62	\$ (0.96)

General

For the second quarter of 2023, we had net loss available to our common stock and participating securities of \$(34.1) million, or \$(0.34) per basic and diluted common share, compared to net income available to common stock and participating securities of \$64.6 million, or \$0.63 per basic common share and \$0.62 per diluted common share, for the first quarter of 2023. The decrease in net income available to common stock and participating securities in the current period primarily reflects lower Other income, which decreased by \$103.6 million to \$(28.3) million for the current period, compared to Other net income of \$75.3 million in the immediately prior quarter. The decrease in Other income was primarily driven by mark-to-market losses in the current quarter on our residential whole loans that are measured at fair value through earnings, partially offset by net gains on derivatives used for risk management purposes as well as on securitized debt measured at fair value through earnings. The decrease in Other income was partially offset by higher net interest income of \$5.1 million for the second quarter of 2023 compared to the immediately prior quarter, primarily due to higher interest income earned on our residential mortgage asset portfolio, due to an increase in the yield earned on our residential whole loans and additional investments in Agency MBS.

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), the level of loan delinquencies, which may result in changes in the amount of non-accrual loans, 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 second quarter of 2023, our net interest spread and margin were 2.14% and 2.99%, respectively, compared to a net interest spread and margin of 1.74% and 2.64%, respectively, for the first quarter of 2023. Our net interest income increased by \$5.1 million and was \$44.5 million for the second quarter of 2023, compared to \$39.4 million for the first quarter of 2023. For the second quarter of 2023, net interest income includes higher net interest income from our residential whole loan portfolio of \$4.2 million compared to the first quarter of 2023, primarily due to higher asset yields, partially offset by an increase in financing rates on our financing agreement borrowings. Net interest income for the second quarter of 2023 also includes approximately \$967,000 of additional interest income from cash and other interest-earning assets.

Analysis of Net Interest Income

The following table sets forth certain information about the average balances of our assets and liabilities and their related yields and costs for the three months ended June 30, 2023 and March 31, 2023. 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 June 30, 2023			Three Months Ended March 31, 2023		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets (1):						
Residential whole loans	\$ 8,402,307	\$ 128,048	6.10 %	\$ 8,423,319	\$ 119,510	5.68 %
Securities, at fair value	518,958	9,948	7.67	333,808	7,308	8.76
Cash and cash equivalents (2)	478,015	3,732	3.12	469,353	3,036	2.59
Other interest-earning assets	64,354	2,622	16.30	59,241	2,351	15.87
Total interest-earning assets	9,463,634	144,350	6.10	9,285,721	132,205	5.69
Liabilities:						
Interest-bearing liabilities:						
Collateralized financing agreements (3)	\$ 3,148,269	\$ 56,562	7.11 %	\$ 3,145,555	\$ 53,301	6.78 %
Securitized debt (4)	4,051,021	39,322	3.88	3,816,051	35,579	3.73
Convertible Senior Notes	228,333	3,961	6.94	227,969	3,956	6.94
Total interest-bearing liabilities	7,427,623	99,845	5.34	7,189,575	92,836	5.17
Net interest income/net interest rate spread (5)		44,505	0.76		39,369	0.52
Impact of net Swap carry (6)		25,965	1.38		21,817	1.22
Net interest rate spread (including the impact of Swaps)		\$ 70,470	2.14 %		\$ 61,186	1.74 %
Net interest-earning assets/net interest margin (7)	\$ 2,036,011		2.99 %	\$ 2,096,146		2.64 %

(1) Yields presented throughout this Quarterly Report on Form 10-Q are calculated using average amortized cost data for residential whole loans and securities, which excludes unrealized gains and losses. 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.

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

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

(4) Includes both securitized debt, at carrying value, and securitized debt, at fair value.

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

(6) Reflects the impact of positive or negative swap carry. Positive swap carry results when income from the receive leg of a swap is greater than the expense on the pay leg. Negative swap carry results when income from the receive leg is less than the expense on the pay leg.

(7) Net interest margin reflects annualized net interest income (including net swap expense) 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 June 30, 2023 Compared to Three Months Ended March 31, 2023		
	Increase/(Decrease) due to		Total Net Change in Interest Income/Expense
	Volume	Rate	
Interest-earning assets:			
Residential whole loans	\$ (299)	\$ 8,837	\$ 8,538
Securities, at fair value	3,642	(1,002)	2,640
Cash and cash equivalents	57	639	696
Other interest-earning assets	206	65	271
Total net change in income of interest-earning assets	\$ 3,606	\$ 8,539	\$ 12,145
Interest-bearing liabilities:			
Residential whole loan financing agreements	\$ (2,985)	\$ 3,500	\$ 515
Securities, at fair value repurchase agreements	2,672	72	2,744
REO financing agreements	7	(5)	2
Securitized debt	2,264	1,479	3,743
Convertible Senior Notes	5	—	5
Total net change in expense of interest-bearing liabilities	\$ 1,963	\$ 5,046	\$ 7,009
Net change in net interest income	\$ 1,643	\$ 3,493	\$ 5,136

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)
June 30, 2023	2.14 %	2.99 %
March 31, 2023	1.74	2.64
December 31, 2022	2.21	3.04
September 30, 2022	1.64	2.43
June 30, 2022	1.37	2.13

(1) Reflects the difference between the yield on average interest-earning assets and average cost of funds (including net swap expense).

(2) Reflects annualized net interest income (including net swap expense) divided by average interest-earning assets.

The following table presents the components of the net interest spread earned on our Residential whole loans for the quarterly periods presented:

	Quarter Ended				
	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
Purchased Performing Loans					
Net Yield (1)	5.66 %	5.38 %	5.04 %	4.75 %	4.20 %
Cost of Funding (2)	3.97 %	3.95 %	3.70 %	3.60 %	3.28 %
Net Interest Spread	1.69 %	1.43 %	1.34 %	1.15 %	0.92 %
Purchased Credit Deteriorated Loans					
Net Yield (1)	7.09 %	6.13 %	6.59 %	6.49 %	6.85 %
Cost of Funding (2)	1.98 %	2.23 %	2.13 %	2.72 %	3.17 %
Net Interest Spread	5.11 %	3.90 %	4.46 %	3.77 %	3.68 %
Purchased Non-Performing Loans					
Net Yield (1)	10.11 %	8.46 %	11.15 %	9.84 %	9.40 %
Cost of Funding (2)	3.53 %	3.53 %	3.01 %	2.86 %	3.34 %
Net Interest Spread	6.58 %	4.93 %	8.14 %	6.98 %	6.06 %
Total Residential Whole Loans					
Net Yield (1)	6.10 %	5.68 %	5.62 %	5.30 %	4.85 %
Cost of Funding (2)	3.83 %	3.82 %	3.56 %	3.49 %	3.28 %
Net Interest Spread	2.27 %	1.86 %	2.06 %	1.81 %	1.57 %

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

(2) Reflects annualized interest expense divided by average balance of agreements with mark-to-market collateral provisions (repurchase agreements), agreements with non-mark-to-market collateral provisions, and securitized debt. Cost of funding shown in the table above include the impact of the net carry (the difference between swap interest income received and swap interest expense paid) on our Swaps. While we have not elected hedge accounting treatment for Swaps and, accordingly, net carry is not presented in interest expense in our consolidated statement of operations, we believe it is appropriate to allocate net carry to the cost of funding to reflect the economic impact of our Swaps on the funding costs shown in the table above. For the quarter ended June 30, 2023, this decreased the overall funding cost by 144 basis points for our Residential whole loans, 145 basis points for our Purchased Performing Loans, 206 basis points for our Purchased Credit Deteriorated Loans, and 87 basis points for our Purchased Non-Performing Loans. For the quarter ended March 31, 2023, this decreased the overall funding cost by 127 basis points for our Residential whole loans, 129 basis points for our

Purchased Performing Loans, 171 basis points for our Purchased Credit Deteriorated Loans, and 77 basis points for our Purchased Non-Performing Loans. For the quarter ended December 31, 2022, this decreased the overall funding cost by 89 basis points for our Residential whole loans, 87 basis points for our Purchased Performing Loans, 141 basis points for our Purchased Credit Deteriorated Loans, and 76 basis points for our Purchased Non-Performing Loans. For the quarter ended September 30, 2022, this decreased the overall funding cost by 20 basis points for our Residential whole loans, 19 basis points for our Purchased Performing Loans, 43 basis points for our Purchased Credit Deteriorated Loans, and 24 basis points for our Purchased Non-Performing Loans. For the quarter ended June 30, 2022, this increased the overall funding cost by 25 basis points for our Residential whole loans, 23 basis points for our Purchased Performing Loans, 43 basis points for our Purchased Credit Deteriorated Loans, and 29 basis points for our Purchased Non-Performing Loans.

The following table presents the components of the net interest spread earned on our Securities for the quarterly periods presented:

Quarter Ended	Securities, at fair value		
	Net Yield (1)(2)	Cost of Funding (3)	Net Interest Rate Spread
June 30, 2023	7.67 %	4.29 %	3.38 %
March 31, 2023	8.76	4.52	4.24
December 31, 2022	30.33	5.47	24.86
September 30, 2022	11.06	3.94	7.12
June 30, 2022	10.09	2.54	7.55

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

(2) For the quarter ended December 31, 2022, the net yield of 30.33% includes \$7.8 million of accretion income recognized in 2022 due to the redemption of term notes backed by MSR collateral that had been held at amortized cost basis below par due to impairment charges recorded in the first quarter of 2020. Excluding this accretion, the yield reported would have been 11.87%.

(3) Reflects annualized interest expense divided by average balance of repurchase agreements. Cost of funding shown in the table above for the quarterly periods ended June 30, 2023 and March 31, 2023 includes the impact of the net carry (the difference between swap interest income received and swap interest expense paid) on our Swaps that is allocated to the financing of our Securities, at fair value. For the quarter ended June 30, 2023, this decreased the overall funding cost by 138 basis points for our Securities, at fair value. For the quarter ended March 31, 2023, this decreased the overall funding cost by 104 basis points for our Securities, at fair value. Periods prior to the quarter ended March 31, 2023 were not impacted as there was no allocation of net swap carry to the financing of our Securities, at fair value for those periods.

Interest Income

Interest income on our residential whole loans for the second quarter of 2023 increased by \$8.5 million, or 7.1%, to \$128.0 million, compared to \$119.5 million for the first quarter of 2023. This increase primarily reflects an increase in the yield to 6.10% for the second quarter of 2023 from 5.68% for the first quarter of 2023, partially offset by a \$21.0 million decrease in the average balance of this portfolio to \$8.4 billion for the second quarter of 2023 from the first quarter of 2023. Additional payoffs of Non-Performing and Purchased Credit Impaired loans compared to the prior quarter increased interest income in the current quarter by approximately \$2.4 million, while the impact of certain Non-Performing and Purchased Credit Impaired loans reverting to accrual status increased interest income in the second quarter by approximately \$0.6 million.

Interest income on our Securities, at fair value portfolio for the second quarter of 2023 increased by \$2.6 million to \$9.9 million from \$7.3 million for the first quarter of 2023. This increase primarily reflects an increase in the average amortized cost of the portfolio of \$185.2 million, due to additional purchases of Agency MBS in the second quarter of 2023, partially offset by a decrease in the net yield on our Securities, at fair value to 7.67% for the second quarter of 2023, compared to 8.76% for the first quarter of 2023.

Interest Expense

Our interest expense for the second quarter of 2023 increased by \$7.0 million, or 7.5%, to \$99.8 million, from \$92.8 million for the first quarter of 2023. This increase primarily reflects an increase in financing rates on our financing agreements, and an increase in our average securitized debt partially offset by a decrease in collateralized financing agreement borrowings to finance our residential mortgage asset portfolio.

Provision for Credit Losses on Residential Whole Loans Held at Carrying Value

For the second quarter of 2023, we recorded a provision for credit losses on residential whole loans held at carrying value of \$294,000 compared to a reversal of provision of \$13,000 for the first quarter of 2023. The provision recorded in the current period primarily reflects the impact of loan charge-offs, partially offset by run-off of loans held at carrying value.

Other (Loss)/Income, net

For the second quarter of 2023, Other Loss, net was \$28.3 million, compared to Other Income, net of \$75.3 million for the first quarter of 2023. The components of Other (Loss)/Income, net for the second and first quarters of 2023 are summarized in the table below:

(In Thousands)	Three Months Ended	
	June 30, 2023	March 31, 2023
Net (loss)/gain on residential whole loans measured at fair value through earnings	\$ (130,703)	\$ 129,174
Impairment and other net (loss)/gain on securities and other portfolio investments	(4,569)	2,931
Net gain on real estate owned	2,153	3,942
Net gain/(loss) on derivatives used for risk management purposes	60,451	(21,208)
Net gain/(loss) on securitized debt measured at fair value through earnings	27,394	(51,725)
Lima One - origination, servicing and other fee income	11,477	8,976
Other, net	5,496	3,172
Other (Loss)/Income, net	\$ (28,301)	\$ 75,262

Operating and Other Expense

For the second quarter of 2023, we had compensation and benefits and other general and administrative expenses of \$32.9 million, compared to \$31.0 million for the first quarter of 2023. Compensation and benefits expense increased by \$1.1 million to \$21.8 million for the second quarter of 2023, compared to \$20.6 million for the first quarter of 2023, primarily reflecting higher compensation costs at Lima One, consistent with higher origination volumes and higher headcount compared to the prior period. Our other general and administrative expenses increased by \$778,000 to \$11.2 million for the second quarter of 2023, compared to \$10.4 million for the first quarter of 2023, primarily reflecting Directors compensation costs related to the annual grant of equity awards to non-employee Directors made in the second quarter of 2023. In addition, professional services expenses were also higher in the second quarter. These increases were partially offset by lower provisions for income taxes as estimated taxable income generated in our taxable REIT subsidiary decreased compared to the prior period.

Operating and Other Expense for the second quarter of 2023 also includes \$7.6 million of loan servicing and other related operating expenses related to our residential whole loan activities. These expenses decreased compared to the prior quarter period by approximately \$1.9 million, or 20.3%, primarily due to lower expenses recognized related to loan securitization activities.

In addition, Other expenses for each of the second quarter of 2023 and the first quarter of 2023 also include \$1.3 million of amortization related to intangible assets recognized as part of the purchase accounting for the Lima One acquisition.

Selected Financial Ratios

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

At or for the Quarter Ended	Return on Average Total Assets (1)	Return on Average Total Stockholders' Equity (2)	Dividend Payout Ratio (3)	Total Average Stockholders' Equity to Total Average Assets (4)	Leverage Multiple (5)	Recourse Leverage Multiple (6)
June 30, 2023	(0.27)%	(1.31)%	—	20.99 %	3.9	1.9
March 31, 2023	3.14	14.40	0.56	21.81	3.5	1.6
December 31, 2022	0.29	1.32	—	21.59	3.5	1.8
September 30, 2022	(0.58)	(2.57)	—	22.53	3.6	1.7
June 30, 2022	(1.06)	(4.35)	—	24.33	3.3	1.8

(1) Reflects annualized net income divided by average total assets. For the quarters ended June 30, 2023, September 30, 2022 and June 30, 2022, the amounts calculated reflect the quarterly net income divided by average total assets.

(2) Reflects annualized net income divided by average total stockholders' equity. For the quarters ended June 30, 2023, September 30, 2022 and June 30, 2022, the amounts calculated reflect the quarterly net income divided by average total stockholders' equity.

(3) Reflects dividends declared per share of common stock divided by earnings per share. The ratio has not been calculated for periods where earnings per share is negative as the calculations are not meaningful.

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

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

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

Six Month Period Ended June 30, 2023 Compared to the Six Month Period Ended June 30, 2022

The following table summarizes the changes in our results of operations for the six months ended June 30, 2023 compared to the six months ended June 30, 2022.

(In Thousands)	Six Months Ended		YoY Change
	June 30, 2023	June 30, 2022	
Interest Income:			
Residential whole loans	\$ 247,558	\$ 201,820	\$ 45,738
Securities, at fair value	17,256	10,569	6,687
Other interest-earning assets	4,973	2,855	2,118
Cash and cash equivalent investments	6,768	426	6,342
Interest Income	\$ 276,555	\$ 215,670	\$ 60,885
Interest Expense:			
Asset-backed and other collateralized financing arrangements	\$ 184,764	\$ 92,170	\$ 92,594
Other interest expense	7,917	7,868	49
Interest Expense	\$ 192,681	\$ 100,038	\$ 92,643
Net Interest Income	\$ 83,874	\$ 115,632	\$ (31,758)
(Provision)/Reversal of Provision for Credit Losses on Residential Whole Loans	\$ (281)	\$ 1,694	\$ (1,975)
Provision for Credit Losses on Other Assets	—	(28,579)	28,579
Net Interest Income after Provision for Credit Losses	\$ 83,593	\$ 88,747	\$ (5,154)
Other Income/(Loss), net:			
Net loss on residential whole loans measured at fair value through earnings	\$ (1,529)	\$ (506,116)	\$ 504,587
Impairment and other net loss on securities and other portfolio investments	(1,638)	(15,747)	14,109
Net gain on real estate owned	6,095	15,917	(9,822)
Net gain on derivatives used for risk management purposes	39,243	141,905	(102,662)
Net (loss)/gain on securitized debt measured at fair value through earnings	(24,331)	148,690	(173,021)
Lima One - origination, servicing and other fee income	20,453	25,167	(4,714)
Other, net	8,668	6,220	2,448
Other Income/(Loss), net	\$ 46,961	\$ (183,964)	\$ 230,925
Operating and Other Expense:			
Compensation and benefits	\$ 42,401	\$ 38,616	\$ 3,785
Other general and administrative expense	21,560	19,204	2,356
Loan servicing, financing and other related costs	17,137	23,636	(6,499)
Amortization of intangible assets	2,600	6,600	(4,000)
Operating and Other Expense	\$ 83,698	\$ 88,056	\$ (4,358)
Net Income/(Loss)	\$ 46,856	\$ (183,273)	\$ 230,129
Less Preferred Stock Dividend Requirement	\$ 16,437	\$ 16,438	\$ (1)
Net Income/(Loss) Available to Common Stock and Participating Securities	\$ 30,419	\$ (199,711)	\$ 230,130
Basic Earnings/(Loss) per Common Share	\$ 0.30	\$ (1.91)	\$ 2.21
Diluted Earnings/(Loss) per Common Share	\$ 0.29	\$ (1.91)	\$ 2.20

General

For the six months ended June 30, 2023, we had net income available to our common stock and participating securities of \$30.4 million, or \$0.30 per basic common share and \$0.29 per diluted common share, compared to a net loss available to our common stock and participating securities of \$(199.7) million, or \$(1.91) per basic and diluted common share, for the six

months ended June 30, 2022. The increase in net income available to common stock and participating securities primarily reflects higher Other income, which increased by \$230.9 million to \$47.0 million for the current period, compared to a Other loss, net of \$(184.0) million for the prior year period. The increase in Other income was primarily driven by lower mark-to-market losses in the current period on our residential whole loans that are measured at fair value through earnings, partially offset by lower net gains on derivatives used for risk management purposes and unrealized losses on securitized debt, compared to gains in the prior period. Higher Other income was partially offset by lower net interest income, which decreased by \$31.8 million from the prior six month period, primarily due to higher funding costs associated with our financing arrangements given the impact of significantly higher interest rates over the past twelve months, partially offset by higher asset yields earned on our residential whole loans portfolio and higher amounts invested in our residential mortgage asset portfolio. In addition, for the six months ended June 30, 2022, we recorded a Provision for Credit Losses on Other Assets of \$28.6 million, reflecting an impairment charge against the carrying value of our investment in one loan origination partner, bringing the net carrying value of this investment to zero at June 30, 2022.

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), the level of loan delinquencies, which may result in changes in the amount of non-accrual loans, 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 six months ended June 30, 2023, our net interest spread and margin were 1.94% and 2.82%, respectively, compared to a net interest spread and margin of 1.65% and 2.37%, respectively, for the six months ended June 30, 2022. Our net interest income decreased by \$31.8 million, or 27.5%, to \$83.9 million for the six months ended June 30, 2023 compared to net interest income of \$115.6 million for the six months ended June 30, 2022. For the six months ended June 30, 2023, net interest income includes lower net interest income from our residential whole loan portfolio of \$38.5 million compared to the six months ended June 30, 2022, primarily due to higher rates paid on our financing agreement borrowings partially offset by higher asset yields and higher amounts invested in the loan portfolio. Net interest income for the six months ended June 30, 2023 also includes lower net interest income from our Securities, at fair value portfolio of approximately \$1.3 million and approximately \$8.5 million of additional interest income from cash and other interest earning assets compared to the six months ended June 30, 2022.

Analysis of Net Interest Income

The following table sets forth certain information about the average balances of our assets and liabilities and their related yields and costs for the six months ended June 30, 2023 and 2022. 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)	Six Months Ended June 30,					
	2023			2022		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:						
Interest-earning assets (1):						
Residential whole loans	\$ 8,412,755	\$ 247,558	5.89 %	\$ 8,244,026	\$ 201,820	4.90 %
Securities, at fair value	426,894	17,256	8.08	209,129	10,569	10.11
Cash and cash equivalents (2)	473,708	6,768	2.86	474,714	426	0.18
Other interest-earning assets	61,812	4,973	16.09	56,853	2,855	10.04
Total interest-earning assets	9,375,169	276,555	5.90	8,984,722	215,670	4.80
Liabilities:						
Interest-bearing liabilities:						
Collateralized financing agreements (3)	\$ 3,146,920	\$ 109,862	6.94 %	\$ 3,778,304	\$ 53,024	2.79 %
Securitized debt (4)	3,934,185	74,902	3.81	2,932,134	39,146	2.66
Convertible Senior Notes	228,152	7,917	6.94	226,754	7,868	6.94
Total interest-bearing liabilities	7,309,257	192,681	5.26	6,937,192	100,038	2.87
Net interest income/net interest rate spread (5)		83,874	0.64		115,632	1.93
Impact of net Swap carry (6)		47,782	1.30		(9,801)	(0.28)
Net interest rate spread (including the impact of Swaps)		\$ 131,656	1.94 %		\$ 105,831	1.65 %
Net interest-earning assets/net interest margin (7)	\$ 2,065,912		2.82 %	\$ 2,047,530		2.37 %

(1) Yields presented throughout this Quarterly Report on Form 10-Q are calculated using average amortized cost data for residential whole loans and securities, which excludes unrealized gains and losses. 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.

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

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

(4) Includes both securitized debt, at carrying value, and securitized debt, at fair value.

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

(6) Reflects the impact of positive or negative swap carry. Positive swap carry results when income from the receive leg of a swap is greater than the expense on the pay leg. Negative swap carry results when income from the receive leg is less than the expense on the pay leg.

(7) Net interest margin reflects annualized net interest income (including net swap carry) 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)	Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022		
	Increase/(Decrease) due to		Total Net Change in Interest Income/Expense
	Volume	Rate	
Interest-earning assets:			
Residential whole loans	\$ 4,207	\$ 41,531	\$ 45,738
Securities, at fair value	7,385	(698)	6,687
Cash and cash equivalents	—	6,342	6,342
Other interest-earning assets	268	1,850	2,118
Total net change in income of interest-earning assets	\$ 11,860	\$ 49,025	\$ 60,885
Interest-bearing liabilities:			
Residential whole loan financing agreements	\$ (13,841)	\$ 62,197	\$ 48,356
Securities, at fair value repurchase agreements	3,285	4,688	7,973
REO financing agreements	22	487	509
Securitized debt	15,786	19,970	35,756
Convertible Senior Notes and Senior Notes	49	—	49
Total net change in expense of interest-bearing liabilities	\$ 5,301	\$ 87,342	\$ 92,643
Net change in net interest income	\$ 6,559	\$ (38,317)	\$ (31,758)

The following table presents the components of the net interest spread earned on our Residential whole loans for the periods presented:

	Six Months Ended	
	June 30, 2023	June 30, 2022
Purchased Performing Loans		
Net Yield (1)	5.52 %	4.19 %
Cost of Funding (2)	3.96 %	3.02 %
Net Interest Spread	1.56 %	1.17 %
Purchased Credit Deteriorated Loans		
Net Yield (1)	6.60 %	6.82 %
Cost of Funding (2)	2.11 %	3.02 %
Net Interest Spread	4.49 %	3.80 %
Purchased Non-Performing Loans		
Net Yield (1)	9.27 %	9.62 %
Cost of Funding (2)	3.53 %	3.21 %
Net Interest Spread	5.74 %	6.41 %
Total Residential Whole Loans		
Net Yield (1)	5.89 %	4.90 %
Cost of Funding (2)	3.82 %	3.04 %
Net Interest Spread	2.07 %	1.86 %

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

(2) Reflects annualized interest expense divided by average balance of agreements with mark-to-market collateral provisions (repurchase agreements), agreements with non-mark-to-market collateral provisions, and securitized debt. Cost of funding shown in the table above includes the impact of the net carry (the difference between swap interest income received and swap interest expense paid) on our Swaps. While we have not elected hedge accounting treatment for Swaps, and accordingly, net carry is not presented in interest expense in our consolidated statement of operations, we believe it is appropriate to allocate net carry to the cost of funding to reflect the economic impact of our Swaps on the funding costs shown in the table above. For the period ended June 30, 2023, this decreased the overall funding cost by 135 basis points for our Residential whole loans, 137 basis points for our Purchased Performing Loans, 189 basis points for our Purchased Credit Deteriorated Loans, and 82 basis points for our Purchased Non-Performing Loans. For the period ended June 30, 2022, this increased the overall funding cost by 30 basis points for our Residential whole loans, 28 basis points for our Purchased Performing Loans, 50 basis points for our Purchased Credit Deteriorated Loans, and 34 basis points for our Purchased Non-Performing Loans.

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

Six Months Ended	Securities, at fair value		
	Net Yield (1)	Cost of Funding (2)	Net Interest Rate Spread
June 30, 2023	8.08 %	4.38 %	3.70 %
June 30, 2022	10.11	2.13	7.98

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

(2) Reflects annualized interest expense divided by average balance of repurchase agreements. Cost of funding shown in the table above for the six months ended June 30, 2023 includes the impact of the net carry (the difference between swap interest income received and swap interest expense paid) on our Swaps that is allocated to the financing of our Securities, at fair value. For the six months ended June 30, 2023, this decreased the overall funding cost by 125 basis points for our Securities, at fair value. Periods prior to the quarter ended March 31, 2023 were not impacted as there was no allocation of net swap carry to the financing of our Securities, at fair value for those periods.

Interest Income

Interest income on our residential whole loans for the six months ended June 30, 2023 increased by \$45.7 million, or 22.7%, to \$247.6 million, compared to \$201.8 million for the six months ended June 30, 2022. This increase primarily reflects an increase in the yield to 5.89% for the six months ended June 30, 2023 from 4.90% for the six months ended June 30, 2022, and a \$168.7 million increase in the average balance of this portfolio to \$8.4 billion for the six months ended June 30, 2023 from \$8.2 billion for the six months ended June 30, 2022.

Interest income on our Securities, at fair value portfolio for the six months ended June 30, 2023 increased by \$6.7 million to \$17.3 million from \$10.6 million for the six months ended June 30, 2022. This increase primarily reflects an increase in the average amortized cost of the portfolio of \$217.8 million due to purchases of Agency MBS, partially offset by a decrease in the net yield on our Securities, at fair value portfolio to 8.08% for the six months ended June 30, 2023, compared to 10.11% for the six months ended June 30, 2022.

Interest Expense

Our interest expense for the six months ended June 30, 2023 increased by \$92.6 million, or 92.6%, to \$192.7 million, from \$100.0 million for the six months ended June 30, 2022. This increase primarily reflects an increase in financing rates on our financing agreements and higher overall average balances of our financing agreements.

Provision for Credit Losses on Residential Whole Loans Held at Carrying Value

For the six months ended June 30, 2023, we recorded a provision for credit losses on residential whole loans held at carrying value of \$281,000 compared to a reversal of provision for credit losses of \$1.7 million for the six months ended June 30, 2022. The provision recorded in the current period primarily reflects the impact of loan charge-offs, partially offset by the run-off of loans held at carrying value. The prior period reversal primarily reflects run-off of loans held at carrying value and adjustments to certain economic and loan prepayment speeds used in our credit loss forecasts.

Provision for Credit Losses on Other Assets

For the six months ended June 30, 2022, we recorded a provision for credit losses on Other Assets of \$28.6 million, reflecting an impairment charge against the carrying value of our investment in one loan origination partner, bringing the net carrying value of this investment to zero at June 30, 2022.

Other Income/(Loss), net

For the six months ended June 30, 2023, Other Income, net was \$47.0 million, compared to an Other Loss, net of \$184.0 million for the six months ended June 30, 2022. The components of Other Income/(Loss), net for the six months ended June 30, 2023 and 2022 are summarized in the table below:

(In Thousands)	Six Months Ended June 30,	
	2023	2022
Net loss on residential whole loans measured at fair value through earnings	\$ (1,529)	(506,116)
Impairment and other net loss on securities and other portfolio investments	(1,638)	(15,747)
Net gain on real estate owned	6,095	15,917
Net gain on derivatives used for risk management purposes	39,243	141,905
Net (loss)/gain on securitized debt measured at fair value through earnings	(24,331)	148,690
Lima One - origination, servicing and other fee income	20,453	25,167
Other, net	8,668	6,220
Other Income/(Loss), net	\$ 46,961	\$ (183,964)

Operating and Other Expense

During the six months ended June 30, 2023, we had compensation and benefits and other general and administrative expenses of \$64.0 million, compared to \$57.8 million for the six months ended June 30, 2022. Compensation and benefits expense increased \$3.8 million to \$42.4 million for the six months ended June 30, 2023, compared to \$38.6 million for the six months ended June 30, 2022, primarily reflecting higher salary expense and an increase in long-term incentive compensation, partially offset by lower sales commission expense at Lima One, consistent with lower origination volumes in the current period. Our other general and administrative expenses increased by \$2.4 million to \$21.6 million for the six months ended June 30, 2023, compared to \$19.2 million for the six months ended June 30, 2022, primarily reflecting higher costs associated with deferred compensation to Directors in the current period, which were impacted by changes in our stock price, the impact of higher depreciation and other costs in the current period primarily related to furniture and fixtures and IT infrastructure at our corporate offices, partially offset by lower tax provisions and state tax expense as well as lower professional service costs.

Operating and Other Expense during the six months ended June 30, 2023 also includes \$17.1 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 \$6.5 million, or 27.5%, primarily due to lower expenses recognized related to loan securitization activities, lower servicing fees, diligence and other costs associated with acquiring loans and lower non-recoverable advances on our REO portfolio.

In addition, Other expenses for the six months ended June 30, 2023 and 2022 also includes \$2.6 million and \$6.6 million, respectively, of amortization related to intangible assets recognized as part of the purchase accounting for the Lima One acquisition.

Selected Financial Ratios

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

<u>At or for the Six Months Ended</u>	<u>Return on Average Total Assets (1)</u>	<u>Return on Average Total Stockholders' Equity (2)</u>	<u>Dividend Payout Ratio (3)</u>	<u>Total Average Stockholders' Equity to Total Average Assets (4)</u>	<u>Leverage Multiple (5)</u>	<u>Recourse Leverage Multiple (6)</u>
June 30, 2023	1.00 %	4.68 %	2.33	21.39 %	3.9	1.9
June 30, 2022	(1.94)	(7.64)	—	25.46	3.3	1.8

(1) Reflects annualized net income divided by average total assets. For the six months ended June 30, 2022, the amount calculated reflects net income divided by average total assets.

(2) Reflects annualized net income divided by average total stockholders' equity. For the six months ended June 30, 2022, the amount calculated reflects net income divided by average total stockholders' equity.

(3) Reflects dividends declared per share of common stock divided by earnings per share. The ratio has not been calculated for periods where earnings per share is negative as the calculations are not meaningful.

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

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

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

Reconciliation of GAAP and Non-GAAP Financial Measures**Reconciliation of GAAP Net Income to non-GAAP Distributable Earnings**

“Distributable earnings” is a non-GAAP financial measure of our operating performance, within the meaning of Regulation G and Item 10(e) of Regulation S-K, as promulgated by the Securities and Exchange Commission. Distributable earnings is determined by adjusting GAAP net income/(loss) by removing certain unrealized gains and losses, primarily on residential mortgage investments, associated debt, and hedges that are, in each case, accounted for at fair value through earnings, certain realized gains and losses, as well as certain non-cash expenses and securitization-related transaction costs. Management believes that the adjustments made to GAAP earnings result in the removal of (i) income or expenses that are not reflective of the longer term performance of our investment portfolio, (ii) certain non-cash expenses, and (iii) expense items required to be recognized solely due to the election of the fair value option on certain related residential mortgage assets and associated liabilities. Distributable earnings is one of the factors that our Board of Directors considers when evaluating distributions to our shareholders. Accordingly, we believe that the adjustments to compute Distributable earnings specified below provide investors and analysts with additional information to evaluate our financial results.

Distributable earnings should be used in conjunction with results presented in accordance with GAAP. Distributable earnings does not represent and should not be considered as a substitute for net income or cash flows from operating activities, each 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 net (loss)/income used in the calculation of basic EPS to our non-GAAP Distributable earnings for the quarterly periods below:

(In Thousands, Except Per Share Amounts)	Quarter Ended				
	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
GAAP Net (loss)/income used in the calculation of basic EPS	\$ (34,265)	\$ 64,407	\$ (1,647)	\$ (63,410)	\$ (108,760)
Adjustments:					
Unrealized and realized gains and losses on:					
Residential whole loans held at fair value	130,703	(129,174)	68,828	291,818	218,181
Securities held at fair value	3,698	(2,931)	383	(1,549)	1,459
Interest rate swaps	(37,018)	40,747	12,725	(108,917)	(31,767)
Securitized debt held at fair value	(30,908)	48,846	(44,988)	(100,767)	(84,348)
Investments in loan origination partners	872	—	8,526	2,031	39,162
Expense items:					
Amortization of intangible assets	1,300	1,300	1,300	1,300	3,300
Equity based compensation	3,932	3,020	2,480	2,673	3,540
Securitization-related transaction costs	2,071	4,602	1,744	5,014	6,399
Total adjustments	74,650	(33,590)	50,998	91,603	155,926
Distributable earnings	\$ 40,385	\$ 30,817	\$ 49,351	\$ 28,193	\$ 47,166
GAAP (loss)/earnings per basic common share	\$ (0.34)	\$ 0.63	\$ (0.02)	\$ (0.62)	\$ (1.06)
Distributable earnings per basic common share	\$ 0.40	\$ 0.30	\$ 0.48	\$ 0.28	\$ 0.46
Weighted average common shares for basic earnings per share	101,915	101,900	101,800	101,795	102,515

Selected Financial Ratios (using Distributable earnings)

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

At or for the Quarter Ended	Return on Average Total Assets (1)	Return on Average Total Stockholders' Equity (2)	Dividend Payout Ratio (3)
June 30, 2023	2.05 %	9.79 %	0.88
March 31, 2023	1.68	7.73	1.17
December 31, 2022	2.45	11.34	0.73
September 30, 2022	1.53	6.79	1.57
June 30, 2022	2.33	9.60	0.96

(1) Reflects annualized Distributable earnings before preferred dividends divided by average total assets.

(2) Reflects annualized Distributable earnings before preferred dividends divided by average total stockholders' equity.

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

Segment Reporting (using Distributable earnings)

The following table presents our non-GAAP Distributable earnings by segment for the quarterly period below:

(Dollars in Thousands)	Mortgage-Related Assets	Lima One	Corporate	Total
Three months ended June 30, 2023				
GAAP Net (loss)/income used in the calculation of basic EPS	\$ (5,539)	\$ 118	\$ (28,844)	\$ (34,265)
Adjustments:				
Unrealized and realized gains and losses on:				
Residential whole loans held at fair value	97,459	33,244	—	130,703
Securities held at fair value	3,698	—	—	3,698
Interest rate swaps	(27,903)	(9,115)	—	(37,018)
Securitized debt held at fair value	(21,756)	(9,152)	—	(30,908)
Investments in loan origination partners	—	—	872	872
Expense items:				
Amortization of intangible assets	—	1,300	—	1,300
Equity based compensation	—	130	3,802	3,932
Securitization-related transaction costs	—	—	2,071	2,071
Total adjustments	\$ 51,498	\$ 16,407	\$ 6,745	\$ 74,650
Distributable earnings	<u>\$ 45,959</u>	<u>\$ 16,525</u>	<u>\$ (22,099)</u>	<u>\$ 40,385</u>

(Dollars in Thousands)	Mortgage-Related Assets	Lima One	Corporate	Total
Three months ended March 31, 2023				
GAAP Net income/(loss) used in the calculation of basic EPS	\$ 76,153	\$ 20,215	\$ (31,961)	\$ 64,407
Adjustments:				
Unrealized and realized gains and losses on:				
Residential whole loans held at fair value	(95,509)	(33,665)	—	(129,174)
Securities held at fair value	(2,931)	—	—	(2,931)
Interest rate swaps	30,870	9,877	—	40,747
Securitized debt held at fair value	32,580	16,266	—	48,846
Investments in loan origination partners	—	—	—	—
Expense items:				
Amortization of intangible assets	—	1,300	—	1,300
Equity based compensation	—	127	2,893	3,020
Securitization-related transaction costs	—	—	4,602	4,602
Total adjustments	\$ (34,990)	\$ (6,095)	\$ 7,495	\$ (33,590)
Distributable earnings	<u>\$ 41,163</u>	<u>\$ 14,120</u>	<u>\$ (24,466)</u>	<u>\$ 30,817</u>

Reconciliation of GAAP Book Value per Common Share to non-GAAP Economic Book Value per Common Share

“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 and securitized debt held 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 financial instruments. These adjustments are 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 investment activities, 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:

(In Millions, Except Per Share Amounts)	Quarter Ended:				
	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
GAAP Total Stockholders’ Equity	\$ 1,944.8	\$ 2,018.6	\$ 1,988.8	\$ 2,033.9	\$ 2,146.4
Preferred Stock, liquidation preference	(475.0)	(475.0)	(475.0)	(475.0)	(475.0)
GAAP Stockholders’ Equity for book value per common share	1,469.8	1,543.6	1,513.8	1,558.9	1,671.4
Adjustments:					
Fair value adjustment to Residential whole loans, at carrying value	(58.3)	(33.9)	(70.2)	(58.2)	9.5
Fair value adjustment to Securitized debt, at carrying value	129.8	122.4	139.7	109.6	75.4
Stockholders’ Equity including fair value adjustments to Residential whole loans and Securitized debt held at carrying value (Economic book value)	\$ 1,541.3	\$ 1,632.1	\$ 1,583.3	\$ 1,610.3	\$ 1,756.3
GAAP book value per common share	\$ 14.42	\$ 15.15	\$ 14.87	\$ 15.31	\$ 16.42
Economic book value per common share	\$ 15.12	\$ 16.02	\$ 15.55	\$ 15.82	\$ 17.25
Number of shares of common stock outstanding	101.9	101.9	101.8	101.8	101.8

Recent Accounting Standards to Be Adopted in Future Periods

We are not aware of any recent accounting standards to be adopted in future periods 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 and originate 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 universal shelf registration statement and, at June 30, 2023, we had approximately 2.0 million shares of common stock available for issuance pursuant to our Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan (or DRSP) shelf registration statement. During the six months ended June 30, 2023, we issued 6,666 shares of common stock through our DRSP, raising net proceeds of approximately \$74,000.

During the six months ended June 30, 2023, we did not repurchase any share of common stock through the stock repurchase program. At June 30, 2023, approximately \$202.5 million remained available under the current Board authorization for the purchase of common stock under our stock repurchase program.

In February 2023, our Board authorized a repurchase program for our 6.25% Convertible Senior Notes due 2024 (or the Convertible Senior Notes) pursuant to which we may repurchase up to \$100 million of our Convertible Senior Notes. The convertible notes repurchase program does not require the purchase of any minimum amount of Convertible Senior Notes. The timing and extent to which we repurchase our Convertible Senior Notes 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.

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 June 30, 2023, we had \$2.4 billion of total unpaid principal balance related to asset-backed financing agreements with mark-to-market collateral provisions and \$5.2 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 uncommitted and renewable at the discretion of our lenders, and, as such, our lenders could determine to reduce or terminate our access to future borrowings at virtually any time. The terms of the repurchase transaction borrowings under our master repurchase agreements, as such terms relate to repayment, margin requirements and the segregation of all securities that are the subject of repurchase transactions, generally conform to the terms contained in the standard master repurchase agreement published by the Securities Industry and Financial Markets Association (or SIFMA) or the global master repurchase agreement published by SIFMA and the International Capital Market Association. In addition, each lender typically requires that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions, which differ by lender, may include changes to the margin maintenance requirements, required haircuts (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. At June 30, 2023, we had unused financing capacity of approximately \$1.5 billion across our financing arrangements for all collateral types.

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 with non-mark-to-market terms and the haircuts for those agreements with mark-to-market collateral provisions, see Note 6 to the consolidated financial statements, included under Item 1 of this Quarterly Report on Form 10-Q.

At June 30, 2023, we had a total of \$3.9 billion of residential whole loans and securities and \$19.6 million of restricted cash pledged to our financing counterparties. 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.)

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)						
June 30, 2023	\$ 3,148,269	\$ 3,370,327	\$ 3,370,327	\$ 3,924,422	\$ 3,969,274	\$ 4,043,482
March 31, 2023	3,145,555	3,042,802	3,189,587	3,680,042	3,830,309	3,838,654
December 31, 2022	3,147,303	3,226,651	3,226,651	3,842,757	3,357,590	3,855,013
September 30, 2022	3,351,046	3,229,640	3,411,200	3,643,872	3,832,311	3,832,311
June 30, 2022	3,638,476	3,530,510	3,761,049	3,170,406	3,374,716	3,374,716

(1) The information presented in the table above excludes \$230.0 million of Convertible Senior Notes issued in June 2019.

Cash Flows and Liquidity for the Six Months Ended June 30, 2023

Our cash, cash equivalents and restricted cash increased by \$9.3 million during the six months ended June 30, 2023, reflecting: \$692.2 million used in our investing activities, \$636.4 million provided by our financing activities and \$65.1 million provided by our operating activities.

At June 30, 2023, our debt-to-equity multiple was 3.9 times compared to 3.5 times at December 31, 2022. Our recourse leverage multiple at June 30, 2023 was 1.9 times compared to 1.8 times at December 31, 2022. At June 30, 2023, we had borrowings under asset-backed financing agreements of \$3.4 billion, of which \$2.9 billion were secured by residential whole loans, \$464.1 million were secured by securities and \$28.7 million were secured by REO. In addition, at June 30, 2023, we had securitized debt of \$4.0 billion in connection with our loan securitization transactions. At December 31, 2022, we had borrowings under asset-backed financing agreements of \$3.2 billion, of which \$3.1 billion were secured by residential whole loans, \$111.7 million were secured by securities and \$25.5 million were secured by REO. In addition, at December 31, 2022, we had securitized debt of \$3.4 billion in connection with our loan securitization transactions.

During the six months ended June 30, 2023, \$692.2 million was used in our investing activities. We utilized \$1.3 billion for acquisitions and origination of residential whole loans, loan related investments and capitalized advances and \$383.7 million for acquisitions of securities. During the six months ended June 30, 2023, we received \$695.0 million of principal payments on residential whole loans and loan related investments, \$262.7 million of proceeds from the sale of residential whole loans, and \$66.2 million of proceeds on sales of REO. In addition, during the six months ended June 30, 2023, we received cash proceeds of \$15.8 million from principal payments on our securities.

In connection with our repurchase agreement financings and Swaps, we routinely receive margin calls/reverse margin calls from our counterparties and make margin calls to our counterparties. Margin calls and reverse margin calls, which requirements vary over time, may occur daily between us and any of our counterparties when the value of collateral pledged changes from the amount contractually required. The value of securities pledged as collateral fluctuates reflecting changes in: (i) the face (or par) value of our 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		
June 30, 2023	\$ 5,982	\$ 2,909	\$ 8,891	\$ 5,328	\$ (3,563)
March 31, 2023	676	2,965	3,641	6,529	2,888
December 31, 2022	—	12,121	12,121	13,629	1,508
September 30, 2022	—	4,784	4,784	12,291	7,507
June 30, 2022	—	18,985	18,985	—	(18,985)

(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 June 30, 2023.

During the six months ended June 30, 2023, we paid \$71.5 million for cash dividends on our common stock and dividend equivalents and paid cash dividends of \$16.4 million on our preferred stock. On June 15, 2023, we declared our second quarter 2023 dividend on our common stock of \$0.35 per share; on July 31, 2023, we paid this dividend, which totaled approximately \$35.8 million, including dividend equivalents of approximately \$119,000.

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 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 or other derivatives to lock in a portion of the net interest spread between assets and liabilities or otherwise hedge interest rate risk.

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 have historically used Swaps and other derivatives to reduce the gap in duration between our assets and liabilities.

The fair value of our re-performing and non-performing residential whole loans is in part 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 loans that were re-performing or non-performing when purchased and where the borrower has brought the loan current, but nonetheless may be less likely to prepay due to weak credit history and/or high LTV, we believe these loans exhibit positive duration. We estimate the duration of these residential whole loans using management's assumptions.

The fair value of our Purchased Performing Loans is 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 Transitional 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 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 estimate the duration of our Agency MBS using a third-party financial model, which takes into account key characteristics of securities, market data, and assumptions based on management's view and observed empirical data.

We use derivative financial instruments, including Swaps, as part of our overall interest rate risk management strategy. Such instruments are used to economically 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, or otherwise act as a hedge against changes in interest rates.

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 and securitized debt and other fixed rate debt, based on the assets in our investment portfolio at June 30, 2023. All changes in income and value are measured as the percentage change from the projected net interest income and portfolio value under the base interest rate scenario at June 30, 2023.

Change in Interest Rates (Dollars in Thousands)	Change in Estimated Net Portfolio Value (1)	Percentage Change in Net Interest Income (3)	Percentage Change in Portfolio Value
	(2)		
+100 Basis Point Increase	\$ (137,971)	0.96 %	(1.45)%
+ 50 Basis Point Increase	\$ (63,237)	0.35 %	(0.67)%
Actual at June 30, 2023	\$ —	— %	— %
- 50 Basis Point Decrease	\$ 51,741	0.11 %	0.55 %
-100 Basis Point Decrease	\$ 91,984	(1.31)%	0.97 %

(1) Assets in our portfolio include residential whole loans and REO, securities, other portfolio investments, goodwill, intangibles, receivables, and cash and cash equivalents and restricted cash.

(2) Change in estimated net portfolio value includes the effect of our Swaps, securitized debt, and other fixed-rate debt.

(3) Includes the impact of the net carry on our Swaps.

Certain assumptions have been made in connection with the calculation of the information set forth in the Shock Table and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. The base interest rate scenario assumes interest rates at June 30, 2023. 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 derivative and other hedging transactions (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 June 30, 2023, 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 June 30, 2023, 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 1.19 which is the weighted average of 3.62 for our Residential whole loans, 2.60 for our Securities investments, (2.67) for our derivative and other hedging transactions and securitized and other fixed rate debt, and 0.01 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 (0.48), which is the weighted average of (0.52) for our Residential whole loans, zero for our derivative and other hedging transactions and securitized and other fixed rate debt, (0.70) for our Securities 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

Although we do not believe we are exposed to credit risk in our Agency MBS portfolio, we are exposed to credit risk through our credit sensitive residential mortgage investments, in particular residential whole loans and certain of our securities investments.

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. Credit risk on Purchased Performing Loans is mitigated through our process to underwrite the loan before it is acquired and/or originated 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 Transitional loans. Given the extent of home price appreciation that has occurred since the majority of our Purchased Performing Loans were acquired or originated, we estimate that current LTV’s have decreased significantly, further mitigating the risk of material credit losses on this portfolio.

Our investment process for Purchased 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.

The following table presents certain information about our Residential whole loans at June 30, 2023:

(Dollars in Thousands)	Purchased Performing Loans		Purchased Credit Deteriorated Loans		Purchased Non-Performing Loans		Total
	Loans with an LTV:		Loans with an LTV:		Loans with an LTV:		
	80% or Below	Above 80%	80% or Below	Above 80%	80% or Below	Above 80%	
Amortized cost	\$ 7,305,168	\$ 246,464	\$ 365,515	\$ 82,851	\$ 520,005	\$ 139,966	\$ 8,659,969
Unpaid principal balance (UPB)	\$ 7,191,512	\$ 242,524	\$ 417,556	\$ 111,287	\$ 596,291	\$ 228,998	\$ 8,788,168
Weighted average coupon (1)	6.3 %	6.0 %	4.8 %	4.7 %	5.1 %	5.0 %	5.8 %
Weighted average term to maturity (months)	257	337	261	313	258	319	256
Weighted average LTV (2)	64.5 %	86.5 %	50.7 %	105.2 %	50.7 %	109.7 %	65.2 %
Loans 90+ days delinquent (UPB)	\$ 163,443	\$ 7,238	\$ 50,610	\$ 24,208	\$ 160,434	\$ 90,042	\$ 495,975

(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 Transitional 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 Transitional loans, totaling \$296.1 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 69%. 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 June 30, 2023:

Property Location	Percent of Interest-Bearing Unpaid Principal Balance
California	29.8 %
Florida	12.5 %
Texas	6.3 %
Georgia	4.7 %
New York	4.5 %

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.

Term Notes Backed by MSR Collateral

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.

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 unusually high number of margin calls, negatively impacting our overall liquidity and ultimately leading us to enter into 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 to 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 June 30, 2023, we had access to various sources of liquidity, including \$329.4 million of cash and cash equivalents. Our sources of liquidity do not include restricted cash. In addition, at June 30, 2023, we had \$49.0 million of unencumbered residential whole loans.

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 Purchased Performing Loans (excluding Transitional loans that are typically purchased at par), 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. Fees payable by borrowers on the early repayment of certain of our Purchased Performing Loans serve to mitigate the impact on our income of higher prepayment rates. Generally, if prepayments on 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 June 30, 2023, 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 June 30, 2023. Notwithstanding the foregoing, a control system, no matter how well designed, implemented and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's current periodic reports.

(b) Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2023 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, 2022 (the "2022 Form 10-K"). There are no material changes from the risk factors set forth in the 2022 Form 10-K. However, the risks and uncertainties that the Company faces are not limited to those set forth in the 2022 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 March 11, 2022, our Board authorized a stock repurchase program under which we may repurchase up to \$250 million of our common stock through the end of 2023. The Board's authorization superseded and replaced the authorization under a prior stock repurchase program that had been adopted in November 2020, which had also authorized us to repurchase up to \$250 million.

The stock repurchase program does not require the purchase of any minimum number of shares. The timing and extent to which we repurchase our 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 stock 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 our discretion, through the use of one or more plans adopted under Rule 10b5-1 promulgated under the Exchange Act).

At June 30, 2023, approximately \$202.5 million remained available under the current authorization for the purchase of our common stock under the stock repurchase program.

We engaged in no share repurchase activity during the second quarter of 2023 pursuant to the stock repurchase program nor did we withhold any restricted shares (under the terms of grants under our Equity Compensation Plan (or Equity Plan)) to satisfy tax and payroll withholding obligations resulting from the vesting and settlement of restricted stock awards and/or restricted stock units (RSUs).

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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 or furnished herewith. All other exhibit numbers indicate exhibits previously filed and are hereby incorporated herein by reference.

Exhibit	Description
3.1	Amended and Restated Bylaws of the Company (as amended and restated through April 18, 2023) (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K, dated April 21, 2023 (Commission File No. 1-13991)).
10.1	Equity Compensation Plan of the Company (incorporated herein by reference to Exhibit 10.1 of the Form 8-K, dated June 8, 2023, filed by the Company pursuant to the Exchange Act (Commission File No. 1-13991)).
31.1*	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	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 June 30, 2023 (Unaudited) and December 31, 2022; (ii) our Consolidated Statements of Operations (Unaudited) for the three and six months ended June 30, 2023 and 2022; (iii) our Consolidated Statements of Comprehensive Income / (Loss) (Unaudited) for the three and six months ended June 30, 2023 and 2022; (iv) Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the three and six months ended June 30, 2023 and 2022; (v) our Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2023 and 2022; and (vi) the notes to our Unaudited Consolidated Financial Statements.
104	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: August 3, 2023

MFA FINANCIAL, INC.
(Registrant)

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

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: August 3, 2023

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: August 3, 2023

By: /s/ Stephen D. Yarad
Name: Stephen D. Yarad
Title: Chief Financial 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 June 30, 2023 (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: August 3, 2023

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 June 30, 2023 (the "Form 10-Q"), filed herewith by the Company, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: August 3, 2023

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.