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

--------------

# FORM 10-Q

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

For the quarterly period ended March 31, 2003

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 MORTGAGE INVESTMENTS, INC.
(Exact name of registrant as specified in its charter)

--------------

| Maryland<br>(State or other jurisdiction of incorporation or organization) | 13-3974868<br>(I.R.S. Employer Identification No.) |
|---|---|
| 350 Park Avenue, 21st Floor, New York, New York<br>(Address of principal executive offices) | 10022<br>(Zip Code) |

Registrant's telephone number, including area code: (212) 207-6400

--------------

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes |X| No |_|

46,354,605 shares of the registrant's Common Stock, $0.01 par value, were outstanding as of April 21, 2003.

## INDEX

<TABLE>
<CAPTION>

PART I
Financial Information


| | | Page |
|---|---|---|
| <S> | | <C> |
| Item 1. | Financial Statements | |
| | Consolidated Statements of Financial Condition as of March 31, 2003 (Unaudited) and December 31, 2002 | 1 |
| | Consolidated Statements of Operations (Unaudited) for the Three Months Ended March 31, 2003 and March 31, 2002 | 2 |
| | Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2003 (Unaudited) | 3 |
| | Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 2003 and March 31, 2002 | 4 |
| | Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2003 and March 31, 2002 | 5 |
| | Notes to the Consolidated Financial Statements (Unaudited) | 6 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 18 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 22 |

Item 4. Controls and Procedures........ 24

PART II
Other Information

Item 1. Legal Proceedings........ 25

Item 6. Exhibits and Reports on Form 8-K........ 25

SIGNATURES........ 27

CERTIFICATIONS........ 28
</TABLE>

MFA MORTGAGE INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

<TABLE>
<CAPTION>

| (In Thousands, Except Share and per Share Amounts) | March 31, 2003 | December 31, 2002 |
|---|---|---|
| | (Unaudited) | |
| <S> | <C> | <C> |
| Assets: | | |
| Mortgage backed securities ("MBS") (Note 4) | $ 3,535,722 | $ 3,485,319 |
| Cash and cash equivalents | 34,931 | 64,087 |
| Restricted cash | 2,300 | 39 |
| Accrued interest and dividends receivable | 19,749 | 19,472 |
| Interest rate cap agreements (Note 5) | 770 | 1,108 |
| Equity interest in real estate investments (Note 6) | 3,721 | 3,806 |
| Real estate (Note 6) | 21,825 | 21,986 |
| Goodwill, net | 7,189 | 7,189 |
| Prepaid and other assets | 1,353 | 853 |
| | $ 3,627,560 | $ 3,603,859 |
| Liabilities: | | |
| Repurchase agreements (Note 7) | $ 3,211,577 | $ 3,185,910 |
| Accrued interest payable | 13,535 | 14,299 |
| Mortgages payable on real estate | 16,295 | 16,337 |
| Dividends payable | 13,105 | 14,952 |
| Accrued expenses and other liabilities | 976 | 1,161 |
| | $ 3,255,488 | $ 3,232,659 |
| Commitments and contingencies (Note 8) | -- | -- |
| Stockholders' Equity: | | |
| Common stock, $.01 par value; 375,000,000 shares authorized; 46,354,605 and 46,270,855 issued and outstanding at March 31, 2003 and December 31, 2002, respectively | 464 | 463 |
| Additional paid-in capital | 359,767 | 359,359 |
| Accumulated deficit | (10,178) | (12,417) |
| Accumulated other comprehensive income (Note 11) | 22,019 | 23,795 |
| | 372,072 | 371,200 |
| | $ 3,627,560 | $ 3,603,859 |

</TABLE>

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



MFA MORTGAGE INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

| | Three Months Ended March 31, 2003 | Three Months Ended March 31, 2002 |
|---|---|---|
| (In Thousands, Except per Share Amounts) | (Unaudited) | |
| <S> | <C> | <C> |
| Interest and Dividend Income: | | |
| MBS income | $ 32,065 | $ 26,638 |

| | | |
|---|---|---|
| Corporate debt securities income | -- | 321 |
| Dividend income | -- | 39 |
| Interest income on temporary cash investments | 123 | 255 |
| Total Interest and Dividend Income | 32,188 | 27,253 |
| Interest Expense on Repurchase Agreements | 14,967 | 13,483 |
| Net Interest and Dividend Income | 17,221 | 13,770 |
| Other Income (Loss): | | |
| Income from equity interest in real estate | (100) | 59 |
| Revenue from operations of real estate | 427 | -- |
| Net gain on sale of securities | -- | 414 |
| Other-than-temporary impairment on investment securities | -- | (3,474) |
| Total Other Income/(Loss) | 327 | (3,001) |
| Operating and Other Expense: | | |
| Compensation and benefits | 951 | 819 |
| Real estate operating expense | 347 | -- |
| Mortgage interest on real estate | 203 | -- |
| Other general and administrative | 703 | 393 |
| Total Operating and Other Expense | 2,204 | 1,212 |
| Net Income | $ 15,344 | $ 9,557 |
| Income Per Share: | | |
| Net income per share - basic | $ .33 | $ 0.28 |
| Weighted average shares outstanding - basic | 46,316 | 34,329 |
| Net income per share - diluted | .33 | $ 0.28 |
| Weighted average shares outstanding - diluted | 46,378 | 34,453 |

</TABLE>

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



MFA MORTGAGE INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| (In Thousands, Except per Share Amounts) | Three Months Ended March 31, 2003 (Unaudited) |
|---|---|
| Common Stock (Par Value $.01): | |
| Balance at December 31, 2002 | $ 463 |
| Issuance of common stock for option exercises and stock based compensation | 1 |
| Balance at March 31, 2003 | 464 |
| Additional Paid-in Capital: | |
| Balance at December 31, 2002 | 359,359 |
| Exercise of common stock options | 408 |
| Balance at March 31, 2003 | 359,767 |
| Accumulated Deficit: | |
| Balance at December 31, 2002 | (12,417) |
| Net income | 15,344 |
| Cash dividends declared ($.28 per share) | (13,105) |
| Balance at March 31, 2003 | (10,178) |

Accumulated Other Comprehensive Income:

| | |
|---|---|
| Balance at December 31, 2002 | 23,795 |
| Unrealized loss on MBS during period, net | (1,447) |
| Unrealized loss on interest rate cap agreements | (329) |
| Balance at March 31, 2003 | 22,019 |
| Total Stockholders' Equity | $ 372,072 |

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



MFA MORTGAGE INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

| (In Thousands) | Three Months Ended March 31, 2003 | 2002 |
|---|---|---|
| | (Unaudited) | |
| <S> | <C> | <C> |
| Cash Flows From Operating Activities: | | |
| Net income | $ 15,344 | $ 9,557 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net loss on sale of portfolio investments | -- | (414) |
| Unrealized impairment recognized on debt securities | -- | 3,474 |
| Amortization of purchase premiums on investments | 8,741 | 5,739 |
| Amortization of premium cost for interest rate cap agreements | 9 | -- |
| Increase in interest receivable | (277) | (4,650) |
| Increase in other assets and other | (430) | (193) |
| Decrease in accrued expenses and other liabilities | (185) | (2) |
| (Decrease) increase in accrued interest payable | (764) | 100 |
| Net cash provided by operating activities | 22,438 | 13,611 |
| Cash Flows From Investing Activities: | | |
| Principal payments on MBS | 421,481 | 280,518 |
| Proceeds from sale of MBS | -- | 4,600 |
| Proceeds from sale of corporate equity securities | -- | 3,167 |
| Loss from equity interests in real estate in excess of distributions | 100 | (44) |
| Principal amortization of mortgage principal | (42) | -- |
| Depreciation and amortization on real estate | 76 | -- |
| Purchases of MBS | (482,072) | (1,006,890) |
| Net cash used by investing activities | (60,457) | (718,649) |
| Cash Flows From Financing Activities: | | |
| (Increase) decrease in restricted cash | (2,261) | 679 |
| Purchase of interest rate cap agreements | -- | (1,486) |
| Net increase in repurchase agreement borrowings | 25,667 | 641,795 |
| Net proceeds from common stock offering | -- | 58,213 |
| Dividends paid | (14,952) | (7,718) |
| Proceeds from exercise of stock options | 409 | -- |
| Net cash provided by financing activities | 8,863 | 691,483 |
| Net decrease in cash and cash equivalents | (29,156) | (13,555) |
| Cash and cash equivalents at beginning of period | 64,087 | 58,533 |
| Cash and cash equivalents at end of period | $ 34,931 | $ 44,978 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the period for interest | $ 15,721 | $ 13,382 |

</TABLE>

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



MFA MORTGAGE INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<TABLE>

<CAPTION>

| (In Thousands) | Three Months Ended March 31, 2003 | 2002 |
|---|---|---|
| <S> | <C> | <C> |
| Net income | $ 15,344 | $ 9,557 |
| Other Comprehensive Income: | | |
| Unrealized holding losses arising during the period, net | (1,447) | (6,729) |
| Unrealized holding (losses) gains on interest rate cap agreements arising during the period, net | (329) | 200 |
| Comprehensive Income | $ 13,568 | $ 3,028 |

</TABLE>

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



MFA MORTGAGE INVESTMENTS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization

MFA Mortgage Investments, Inc. (the "Company") was incorporated in Maryland on July 24, 1997 and began operations on April 10, 1998.

On April 10, 1998, the Company and three partnerships; America First Participating/Preferred Equity Mortgage Fund Limited Partnership ("PREP Fund 1"), America First PREP Fund 2 Limited Partnership ("PREP Fund 2"), and America First PREP Fund 2 Pension Series Limited Partnership ("Pension Fund"), consummated a merger transaction whereby the pre-existing net assets and operations of PREP Fund 1 and PREP Fund 2 and a majority interest in the Pension Fund were contributed to the Company in exchange for 9,035,084 shares of the Company's common stock (the "1998 Merger"). The 1998 Merger was accounted for using the purchase method of accounting in accordance with generally accepted accounting principles. PREP Fund 1 was deemed to be the acquirer of PREP Fund 2 and Pension Fund under the purchase method. Accordingly, the 1998 Merger resulted, for financial accounting purposes, in the effective purchase by PREP Fund 1 of all the Beneficial Unit Certificates ("BUCs") of PREP Fund 2 and 99% of the BUCs of Pension Fund. In December 1999, Pension Fund was liquidated and dissolved and, as a result, the Company directly acquired 99% of the assets of Pension Fund. The remaining assets, consisting solely of cash, were distributed to the holders of Pension Fund BUCs who elected to remain in place following the 1998 Merger. As the surviving entity for financial accounting purposes, the assets and liabilities of PREP Fund 1 were recorded by the Company at their historical cost and the assets and liabilities of PREP Fund 2 and Pension Fund were adjusted to fair value. The excess of the fair value of the common stock issued over the fair value of net assets acquired was recorded as goodwill.

From the time of its inception, the Company was externally managed by America First Mortgage Advisory Corporation (the "Advisor"), pursuant to an agreement between the parties. As an externally managed company, the Company had no employees of its own and relied on the Advisor to conduct its business and operations.

Pursuant to consummation of the stockholder approved merger between the Company and the Advisor (the "Advisor Merger"), the Company and the Advisor merged effective 12:01 a.m. on January 1, 2002. As a result, the Company became self-advised and commencing January 1, 2002. For accounting purposes, the Advisor Merger is not considered the acquisition of a "business" for purposes of applying Accounting Principles Board ("APB") Opinion No. 16, "Business Combinations" as superceded by Financial Accounting Standards ("FAS") 141, "Business Combinations" and, therefore, the market value of the common stock issued, valued as of the consummation of the Advisor Merger, in excess of the fair value of the net tangible assets acquired was charged to operating income rather than capitalized as goodwill.

On August 13, 2002, the Company changed its name from America First Mortgage Investments, Inc. to MFA Mortgage Investments, Inc.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying interim unaudited financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted according to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. The financial statements should

be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial position at March 31, 2003 and results of operations for all periods presented have been made. The results of operations for the three month period ended March 31, 2003 should not be construed as indicative of the results to be expected for the full year.

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

(b) MBS, Corporate Debt Securities and Corporate Equity Securities

Statement of FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", requires that investments in securities be designated as either "held-to-maturity", "available-for-sale" or "trading" at the time of acquisition. Securities that are designated as held-to-maturity are carried at their amortized cost. Securities designated as available-for-sale are carried at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Although the Company generally intends to hold most of its MBS until maturity, it may, from time to time, sell any of its MBS as part of the overall management of its business. The available-for-sale designation provides the flexibility to sell its MBS in order to act on potential future market opportunities, changes in economic conditions and to ensure future liquidity. (See Note 2e.)

Gains or losses on the sale of investment securities are based on the specific identification method.

The Company's adjustable rate assets are comprised primarily of adjustable rate MBS ("ARM-MBS") issued or guaranteed as to principal or interest by Ginnie Mae, Fannie Mae or Freddie Mac. Included in these ARM-MBS are hybrid MBS that have a fixed interest rate for an initial period, generally three years for those purchased by the Company, then convert to an adjustable rate for their remaining term to maturity.

Interest income is accrued based on the outstanding principal balance of the investment securities and their contractual terms. Premiums and discounts associated with the purchase of the investment securities are amortized into interest income over the lives of the securities using the effective yield method, adjusted for actual prepayment activity.

During 2002, the Company liquidated its remaining portfolio of corporate debt and equity securities. The corporate debt securities were comprised of non-investment grade, high yield bonds. The Company had taken an impairment charge of $3,474,000 on certain of its corporate debt securities during the first quarter of 2002. The Company had no investments in corporate debt securities at March 31, 2003 or December 31, 2002. (See Note 3d.)

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less. The carrying amount of cash equivalents approximates their fair value.

(d) Restricted Cash

Restricted cash represents amounts held with certain lending institutions with which the Company has repurchase agreements. Such amounts may be used to make principal and interest payments on the related repurchase agreements.

(e) Credit Risk

The Company limits its exposure to credit losses on its investment portfolio by requiring that at least 50% of its investment portfolio consist of MBS that are issued or guaranteed as to principal or interest by an agency or federally chartered corporation of the U.S. Government, such as Ginnie Mae, Fannie Mae and Freddie Mac ("Agency MBS"). The remainder of the Company's assets may be investments in: (i) multi-family apartment properties; (ii) investments

in limited partnerships, real estate investment trusts or a preferred stock of a real estate related corporation or (iii) other fixed-income instruments. As of March 31, 2003, 94.3% of the Company's assets consisted of Agency MBS, 3.2% were MBS rated "AAA" and 1.0% were of cash and cash equivalents; combined these assets comprised 98.5% of the Company's total assets.

Other-than-temporary losses on investment securities, whether designated as available-for-sale or held-to-maturity, as measured by the amount of decline in fair value attributable to factors that are considered to be other-than-temporary, are charged against income resulting in an adjustment of the cost basis of such securities. The following are among, but not all, the factors considered in determining whether and to what extent an other-than-temporary impairment exists: (i) the expected cash flow from the investments; (ii) whether there has been an other-than-temporary deterioration of the credit quality of the underlying mortgages, debtor, or the company in which equity interests are held; (iii) the credit protection available to the related mortgage pool for MBS; (iv) any other market information available, including analysts assessments and statements, public statements and filings made by





the debtor, counterparty or other relevant party issuing or otherwise securing the particular security; (v) management's internal analysis of the security considering all known relevant information at the time of assessment; and (vi) the magnitude and duration of historical decline in market prices. Because management's assessments are based on factual information as well as subjective information available at the time of assessment, the determination as to whether an other-than-temporary decline exists and, if so, the amount considered impaired is also subjective and, therefore, constitutes material estimates, that are susceptible to a significant change. (See Note 4.)

(f) Equity Interests in Real Estate

Equity interest in real estate consists of certain non-consolidated investments accounted for under the equity method, which are comprised of investments in limited partnerships owning real estate. The Company acquired these investments as part of the 1998 Merger. Certain of the properties underlying the equity interests in the limited partnerships that the Company received in the 1998 Merger were subsequently exchanged for other properties through non-taxable exchanges, known for tax purposes as a "Section 1031 exchange".

Certain of the investments have a zero carrying value and are generating operating losses after depreciation. On these investments, earnings are recorded only to the extent distributions are received. Such investments have not been reduced below zero through recognition of allocated investment losses since the Company has no legal obligation to provide additional cash support to the underlying property partnerships as it is not the general partner, nor has it indicated any commitment to provide this support. As of March 31, 2003, the Company had investments in four such limited partnerships, which had mortgage loans secured by the underlying investment properties; however, the Company has no liability for the mortgage loans, since (1) the Company's investment is as a limited partner and (2) the mortgages have non-recourse provisions, such that they are secured only to the extent of the collateral which is comprised of the mortgaged property.

(g) Real Estate

Real estate is comprised of two multi-family real estate properties owned by the Company's wholly-owned subsidiary Retirement Centers Corporation ("RCC"). On October 1, 2002, the Company purchased 100% of the voting common stock of RCC. (See Note 3c.) Prior to the Company's October 1, 2002 purchase of RCC's voting common stock, the Company held only the preferred stock of RCC and accounted for its investment in RCC under the equity method of accounting. Subsequent to October 1, 2002, RCC became a wholly-owned subsidiary of the Company and, as such, was consolidated on a prospective basis. RCC is consolidated with its subsidiaries, which hold properties known as "The Greenhouse" and "Lealand Place". The Greenhouse is a 127-unit muti-family apartment building located in Omaha, Nebraska; Lealand Place is a 192-unit garden-style apartment complex located in Lawrenceville, Georgia.

The properties, capital improvements and other assets held in connection with the properties are carried at cost, net of accumulated depreciation and amortization, not to exceed fair value. Depreciation and amortization are computed using the straight line method over the useful life of the related asset. Maintenance, repairs and minor improvements are charged to expense in the period incurred, while capital improvements are capitalized and depreciated over their useful life.

(h) Repurchase Agreements

The Company finances the acquisition of its MBS at short-term borrowing rates through the use of repurchase agreements. Under repurchase agreements, the Company sells securities to a lender and agrees to repurchase those securities in the future for a price that is higher than the original sales price. The difference between the sale price the Company receives and the repurchase price the Company pays represents interest paid to the lender. Although structured as a sale and repurchase obligation, a repurchase agreement operates as a financing under which the Company effectively pledges its securities as collateral to secure a loan which is equal in value to a specified percentage of the market value of the pledged collateral. The Company retains beneficial ownership of the pledged collateral, including the right to distributions. At the maturity of a repurchase agreement, the Company is required to repay the loan and concurrently receives back its pledged collateral from the lender or, upon mutual consent with the lender, the Company may renew such agreement at the then prevailing financing rate. The repurchase agreements may require the Company to pledge additional assets to the lender in the event the market value of the existing pledged collateral declines. Through March 31, 2003, the Company did not have any margin calls on its repurchase agreements that it was not able to satisfy with either cash or additional pledged collateral.





The Company's repurchase agreements have typically ranged from one month to 18 months; however, future repurchase agreements may have longer maturities. Should the counterparty to repurchase agreements decide not to renew the agreement at maturity, the Company must either refinance elsewhere or be in a position to satisfy the obligation. If, during the term of a repurchase agreement, a lender should file for bankruptcy, the Company might experience difficulty recovering its pledged assets and may have an unsecured claim against the lender's assets. To reduce this risk, the Company enters into repurchase agreements only with financially sound institutions whose holding or parent company's long-term debt rating is "A" or better as determined by two of the Rating Agencies, where applicable. The Company will not enter into repurchase agreements with a lender without the specific approval of the Company's Board of Directors, if the minimum criterion is not met. In the event an existing lender is downgraded below "A", the Company will seek board approval before entering into additional repurchase agreements with that lender. The Company generally aims to diversify its exposure by entering into repurchase agreements with at least four separate lenders with a maximum loan from any lender of no more than three times the Company's stockholders' equity. As of March 31, 2003, the Company had repurchase agreements with 12 separate lenders with a maximum net exposure (the difference between the amount loaned to the Company and the fair value of the security pledged by the Company as collateral) to a single lender of $51.2 million. (See Note 7.)

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

Basic EPS is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed by dividing net income by the weighted-average common shares and common equivalent shares outstanding during the period. For the diluted EPS calculation, the weighted average common shares and common equivalent shares outstanding include the average number of shares of common stock outstanding adjusted for the dilutive effect of unexercised stock options 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 are used to buy back shares of the Company's outstanding common stock at the average market price during the reported period. No common share equivalents are included in the computation of any diluted per share amount for a period in which a net operating loss is reported. (See Note 10.)

(j) Comprehensive Income

Statement of FAS No. 130, "Reporting Comprehensive Income" requires the Company to display and report comprehensive income, which includes all changes in Stockholders' Equity with the exception of additional investments by or dividends to stockholders. Comprehensive income for the Company includes net income and the change in net unrealized holding gains (losses) on investments and certain derivative instruments. (See Note 11.)

(k) Federal Income Taxes

The Company has elected to be taxed as a real estate investment trust ("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 continue to be taxed as a REIT. As such, no provision for current or deferred income taxes has been made in the accompanying consolidated financial statements.

(l) Derivative Financial Instruments - Interest Rate Cap Agreements

On January 1, 2001, the Company adopted FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("FAS 133") as amended by FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" ("FAS 138"). Since the Company had no derivative instruments nor any embedded derivatives that required bifurcation and separate accounting; there was no cumulative effect of an accounting change upon the adoption of FAS 133, as amended.

In accordance with FAS 133, a derivative which is designated as a hedge is recognized as an asset/liability and measured at fair value. In order for the Company's interest rate cap agreements ("Cap Agreement/s" or "Cap/s") to qualify for hedge accounting, upon entering into the Cap Agreement, the Company must anticipate that the hedge will be highly effective in limiting the Company's cost beyond the Cap threshold on its matching (on an aggregate basis) anticipated repurchase agreements during the active period of the Cap. As long as the hedge remains effective, changes in fair value are included in the accumulated other comprehensive income portion of stockholders' equity. Upon the Cap Agreement active period commencing, the premium paid to enter into the Cap Agreement is amortized and reflected in interest expense. The periodic amortization of the premium expense is based on an estimated allocation of the premium, determined at inception of the hedge, for the monthly components





on a fair value basis. Payments received in connection with the Cap Agreement will be reported a reduction to interest expense, net of the amortization recognized for the premium. If it is determined that a Cap Agreement is not effective, the premium would be reduced and a corresponding charge made to interest expense, for the ineffective portion of the Cap Agreement. The maximum cost related to the Company's Caps is limited to the original purchase price of the derivative. In order to limit credit risk associated with purchased Caps, the Company only purchases caps from financial institutions rated "A" or better by one of the Rating Agencies. Income generated by purchased caps, if any, would be presented as an off-set to interest expense on the hedged liabilities.

In order to continue to qualify for and to apply hedge accounting, Caps are monitored on a quarterly basis to determine whether they continue to be effective or, if prior to the commencement of the active period, whether the Cap expects to continue to be effective. If during the term of the Cap agreement the Company determines that a Cap is not effective or that a Cap is not expected to be effective, the ineffective portion of the Cap will no longer qualify for hedge accounting and, accordingly subsequent changes in its fair value will be reflected in earnings.

The Company has Caps, which are derivative instruments, as defined by FAS 133 and FAS 138. At March 31, 2003, the Company had 11 Cap Agreements, with an aggregate notional amount of $310.0 million. The Company utilizes Caps for the purpose of managing interest rate risk and does not anticipate entering into derivative transactions for speculative or trading purposes. There were unrealized losses of $3.3 million on the Company's Caps. (See Note 5.)

(m) Adoption of New Accounting Standards

On January 1, 2003, the Company adopted Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("FAS 148"). FAS 148, amends FAS No. 123, "Accounting for Stock-Based Compensation," ("FAS 123") by providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company will record option expense for options granted subsequent to January 1, 2003, in accordance with FAS 123, as amended by FAS 148. The adoption of FAS 148 did not have a significant impact on the Company; however, the future effect of FAS 148 will be based on, among other things, the underlying terms of future grants of stock based on compensation.

(n) New Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46"), which requires consolidation by the primary beneficiary of all variable interest entities. FIN 46 is effective immediately for investments in all variable interest entities acquired after February 1, 2003 and for previously held investments beginning with the first interim period beginning after June 15, 2003. It is anticipated that this will apply to certain of the Company's equity investments in real estate in which it

has a majority interest as a limited partner but has not historically consolidated because it does not have effective control under the terms of the respective partnership agreements (see Note 6). Accordingly, the Company will consolidate such investments as required by FIN 46 effective for its third quarter of calendar 2003. It is not anticipated that the application of FIN 46 will have a material impact on the Company's financial statements.

(o) Reclassifications

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

3. Advisor Merger/Related Parties and Other Related Parties

(a) Advisor Fees and Advisor Merger

From the time of the 1998 Merger through December 31, 2001, the Advisor managed the operations and investments of the Company and performed administrative services for the Company. Prior to the Advisor Merger, the Advisor was owned directly and indirectly by certain of the Company's directors and executive officers (see discussion below). For the services and functions provided to the Company, the Advisor received a formula based monthly management fee plus an incentive fee for each calendar quarter equal to 20% of the dollar amount by which the annualized return on equity for such quarter exceeded the amount necessary to provide an annualized return on equity equal to the Ten-Year U.S. Treasury rate plus 1%.





The Company entered into an Agreement and Plan of Merger, dated September 24, 2001 (the "Advisor Merger Agreement"), with the Advisor, America First Companies L.L.C. ("AFC") and the stockholders of the Advisor. In December 2001, the Company's stockholders approved the terms of the Advisor Merger Agreement, which provided for the Merger of the Advisor into the Company on January 1, 2002. The Company issued 1,287,501 shares of its common stock to the stockholders of the Advisor as merger consideration. As a result, the Company became self-advised on January 1, 2002.

Certain of the Company's directors and executive officers who were involved in discussions and negotiations relating to the Advisor Merger had, and continue to have, interests that are affected by the Advisor Merger. At the time of the Advisor Merger, AFC owned 80% of the outstanding capital stock of the Advisor. At that time, Michael Yanney, who retired from the Board during the first quarter of 2003, was the Chairman of the Company's Board of Directors, and George H. Krauss, one of the Company's directors, beneficially owned approximately 57% and 17%, respectively, of AFC. In addition, Stewart Zimmerman, the Company's President and Chief Executive Officer, and William S. Gorin, the Company's Executive Vice President, Chief Financial Officer and Treasurer, collectively owned approximately 3% of AFC. At the time of the Advisor Merger, Messrs. Zimmerman, Gorin and Ronald A. Freydberg, the Company's Executive Vice President and Secretary, also owned, in the aggregate, the remaining 20% of the Advisor. Accordingly, the Advisor Merger resulted in these individuals receiving, in the aggregate, beneficial ownership of an additional 1,287,501 shares of the Company's common stock valued at approximately $11.3 million at the time of the Advisor Merger.

Because the Advisor Merger was between affiliated parties and may not be considered to have been negotiated in a completely arm's-length manner, the Company's Board of Directors established a special committee of the Board, which consisted of three of the Company's independent directors who had no personal interest in the Advisor Merger, to direct the negotiations relating to the Advisor Merger on the Company's behalf and to consider and make recommendations to the Board relating to the Advisor Merger.

(b) Property Management

America First Properties Management Company L.L.C. (the "Property Manager"), is a wholly owned subsidiary of AFC, provides property management services for certain of the multi-family properties in which the Company has an interest. The Property Manager receives a management fee equal to a stated percentage of the gross revenues generated by the Company's properties under management, ranging from 3.5% to 4% of gross revenues, which are considered in line with market terms for such services. The Property Manager was paid fees totaling $98,000 and $109,000 for the quarters ended March 31, 2003 and 2002, respectively for managing the properties in which the Company has interests.

(c) Investment in Retirement Centers Corporation

From 1998 thorough September 30, 2002, the Company has held all of the non-voting preferred stock, representing 95% of the ownership and economic

interest, in RCC, an entity formed following the 1998 Merger, which indirectly holds two rental income properties. Through September 30, 2002, Mr. Gorin, the Company's Executive Vice President, Chief Financial Officer and Treasurer, held all of the voting common stock of RCC, representing 5% of the ownership and economic interest in RCC.

On October 1, 2002, the Company purchased 100% of the voting common stock held by Mr. Gorin, representing a 5% economic interest and 100% controlling interest in RCC, for $260,000. The purchase price was based on the estimated value of the underlying properties, as determined by independent appraisers, net of the related mortgage indebtedness. As a result of the purchase of common shares, RCC become a wholly-owned subsidiary of the Company. (See Note 6.)

(d) Investments in Certain Corporate Debt Securities

Prior to the Company liquidating its corporate debt securities portfolio during 2002, the Company held the corporate debt securities of RCN Corporation ("RCN"), which were purchased between February 1999 and August 2000 and Level 3 Corporation ("Level 3"), which were purchased between August 1998 and August 2000. At December 31, 2001, the Company's investment in (i) the RCN debt securities had a carrying value of $2,147,000 and (ii) the Level 3 debt securities had a carrying value of $6,553,000 and an estimated fair value of $3,360,000. Mr. Yanney, who retired as Chairman and as a member of the Company's Board of Directors on March 6, 2003, was on the board of directors of both RCN and Level 3 at the time the Company purchased and sold these securities.





One of the Company's Directors, W. David Scott, is the son of the Chairman of both Level 3 and RCN.

4. Mortgage Backed Securities

As of March 31, 2003 and December 31, 2002, all of the Company's MBS were classified as available-for-sale and, as such, were carried at their estimated fair value. The following table presents the carrying value of the Company's MBS as of March 31, 2003 and December 31, 2002.

| (In Thousands) | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Fannie Mae Certificates | $1,844,866 | $1,901,621 |
| Ginnie Mae Certificates | 4,646 | 5,577 |
| Freddie Mac Certificates | 1,571,263 | 1,450,675 |
| Non-agency AAA | 114,947 | 127,446 |
| | $3,535,722 | $3,485,319 |

At March 31, 2003 and December 31, 2002, the Company's portfolio of MBS consisted of pools of ARM-MBS with carrying values of approximately $3.53 billion and $3.47 billion respectively, and fixed rate MBS with carrying values of approximately $6.7 million and $6.8 million respectively.

Agency MBS: Although not rated, Agency MBS carry an implied "AAA" rating. Agency MBS are issued or guaranteed as to principal or interest by a government agency or federally chartered corporation, such as Fannie Mae, Ginnie Mae or Freddie Mac.

Non-Agency "AAA": Non-Agency "AAA" MBS are privately issued certificates that are backed by pools of single-family and multi-family mortgage loans. Non-Agency "AAA" MBS are rated as such by one of the Rating Agencies. "AAA" is the highest rating given by bond rating agencies and indicates the relative security of the investment. These securities are not guaranteed by the U.S. Government or any of its agencies.

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and fair value of MBS as of March 31, 2003 and December 31, 2002:

| (In Thousands) | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Current face cost | $ 3,431,541 | $ 3,382,275 |
| Premium | 78,898 | 76,333 |
| Discount | (2) | (20) |

| | | |
|---|---|---|
| Gross unrealized gains | 25,974 | 27,154 |
| Gross unrealized losses | (689) | (423) |
| Carrying value/fair value | $ 3,535,722 | $ 3,485,319 |

5. Interest Rate Cap Agreements

As of March 31, 2003, the Company had 11 interest rate Caps with an aggregate notional amount of $310.0 million purchased to hedge against increases in interest rates on $310.0 million of its anticipated future 30-day term repurchase agreements. The Caps had an amortized cost of $4,036,000 and a fair value of $770,000 at March 31, 2003, resulting in an unrealized loss of $3,266,000, which is included as a component of accumulated other comprehensive income. If the 30-day London Interbank Offered Rate ("LIBOR") were to increase above the rate specified in the Cap Agreement during the effective term of the Cap, the Company would receive monthly payments from its counterparty.





The Company's counterparties for the Cap Agreements are financial institutions whose holding or parent company's long-term debt rating is "A" or better, as determined by two of the Rating Agencies, where applicable. In the unlikely event of a default by the counterparty, the Company would not receive payments provided for under the terms of the Cap Agreement and could incur a loss for the initial cost of entering into the Cap Agreement.

<TABLE>
<CAPTION>

| (Dollars in Thousands) | Weighted Average Active Period | Weighted Average LIBOR Strike Rate(1) | Notional Amount | Unamortized Premium | Estimated Fair Value/Carrying Value | Gross Unrealized Loss |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Months until active: | | | | | | |
| Currently active | 19 Months | 5.75% | $ 50,000 | $ 339 | $ 8 | $ (331) |
| Within six months | 18 Months | 4.75 | $ 100,000 | 1,486 | 102 | (1,384) |
| Six to nine months | 18 Months | 4.50 | 100,000 | 1,386 | 193 | (1,193) |
| Nine to 12 months | | -- | -- | -- | -- | -- |
| 12 to 24 months | 18 Months | 3.25 | 60,000 | 825 | 467 | (358) |
| Weighted Average/Total | 18 Months | 4.54% | $ 310,000 | $ 4,036 | $ 770 | $ (3,266) |

</TABLE>

(1) The rate at which payments would become due to the Company under the terms of the cap agreement.

6. Equity Interests in Real Estate Investments and Real Estate

Equity interests in real estate investments and real estate consisted of the following as of March 31, 2003 and December 31, 2002:

| (In Thousands) | March 31, 2003 | December 31, 2002 |
|---|---|---|
| Real estate | $21,825 | $21,986 |
| Investments in and advances to real estate limited partnerships | 3,721 | 3,806 |
| | $25,546 | $25,972 |

On October 1, 2002, the Company purchased the voting common stock of RCC. Prior to this purchase, the Company held the non-voting preferred stock and accounted for its investment in RCC under the equity method. Upon acquiring the controlling interest in RCC, the Company changed from the equity method of accounting for this investment to consolidating RCC, reflecting the assets and liabilities and results of operations of RCC on a prospective basis.

(a) Real Estate /Retirement Center Corporation

RCC was formed as a separate taxable corporation to hold certain properties acquired in the 1998 Merger, primarily retirement/assisted living

properties, the operations of which, if held directly would be incompatible with the Company's maintaining compliance with the REIT provisions of the Code. Such assets have since been sold and the proceeds reinvested in the properties currently held by RCC. As noted above, on October 1, 2002, the Company acquired 100% of the voting common stock of RCC, resulting in a change in the accounting for RCC from that of an equity interest to a wholly-owned consolidated subsidiary.

As of March 31, 2003 and December 31, 2002, RCC owned (i) The Greenhouse, which was acquired on January 12, 2000, and (ii) an 88.3% undivided interest in a 192-unit apartment property located in Lawrenceville, Georgia, which was acquired on January 18, 2001. The Company also owned the remaining 11.7% undivided interest in the Georgia property, which was purchased on January 18, 2001. In December 2000, the Company loaned Greenhouse Holding LLC (which holds The Greenhouse) $437,000 to fund building renovations.





The summary results of real estate, reflects the operations of RCC as consolidated with its two apartment properties for the quarter ended March 31, 2003, were as follows:

| (In Thousands) | |
|---|---|
| Revenue from operations of real estate | $ 427 |
| Interest expense for mortgages on real estate | (203) |
| Other real estate operations expense | (347) |
| | $(123) |

(b) Equity Interests in Real Estate

As of March 31, 2003, the Company had investments in four limited partnerships, which had an aggregate of $31.3 million of non-recourse mortgage loans secured by the underlying investment properties. These mortgages have non-recourse provisions, such that they are generally secured to the extent of the collateral, which is comprised of the mortgaged property. Prior to October 1, 2002, the Company held 100% of the non-voting preferred stock of RCC which represented a 95% economic interest, as such the net assets of RCC were included in equity interests in real estate and income recognized under the equity method. On October 1, 2002, the Company acquired 100% of RCC's voting common stock, thereby gaining full ownership of RCC. Therefore, the Company changed its accounting for RCC from that of an equity investment to a consolidated subsidiary effective October 1, 2002.

7. Repurchase Agreements

As of March 31, 2003, the Company had outstanding balances of $3.2 billion under 195 repurchase agreements with a weighted average borrowing rate of 1.75% and a weighted average remaining maturity of 6.4 months. As of March 31, 2003, the repurchase agreements had the following remaining maturities:

| (In Thousands) | March 31, 2003 |
|---|---|
| Within 30 days | $ 151,510 |
| 31 to 60 days | 300,060 |
| 61 to 90 days | 560,460 |
| 3 to 6 months | 888,311 |
| 6 to 9 months | 535,250 |
| 9 to 12 months | 393,546 |
| 12 to 18 months | 382,440 |
| | $3,211,577 |

The repurchase agreements are collateralized by the Company's MBS which had a carrying value of approximately $3.5 billion. The Company's repurchase agreements generally bear interest at rates that are LIBOR-based.

8. Commitments and Contingencies

At March 31, 2003, there were no commitments to purchase any investment securities or enter into any repurchase agreements.

9. Stockholders' Equity

(a) Dividends/Distributions

The following presents dividends declared by the Company from January 1, 2002 through March 31, 2003:

| Declaration Date | Record Date | Payment Date | Dividend per Share |
|---|---|---|---|
| 2003 | | | |
| March 13, 2003 | March 28, 2003 | April 30, 2003 | $ 0.280 |
| 2002 | | | |
| December 19, 2002 | December 30, 2002 | January 24, 2003 | 0.320 (2) |
| September 12, 2002 | September 30, 2002 | October 30, 2002 | 0.320 (2) |
| June 12, 2002 | June 28, 2002 | July 30, 2002 | 0.300 (1) |
| March 12, 2002 | March 28, 2002 | April 30, 2002 | 0.300 (1) |

(1) Includes a special dividend of $0.02 per share.
(2) Includes a special dividend of $0.04 per share.

(b) Shelf Registration

On September 25, 2001, the Company filed a registration statement on Form S-3 with the Securities and Exchange Commission under the Securities Act of 1933, as amended, (the "Act"), with respect to an aggregate of $300,000,000 of common stock and/or preferred stock that may be sold by the Company from time to time pursuant to Rule 415 under the Act. On October 5, 2001, the Commission declared the registration statement effective. As of March 31, 2003, the Company had $80.1 million remaining under this shelf registration statement.

(c) Stock Repurchase Plan

The Company did not repurchase any of its Common Stock during the quarter ended March 31, 2003. Since implementing the stock repurchase program during the fourth quarter of 1999, through March 31, 2003, the Company had repurchased and retired 378,221 shares at an aggregate cost of $1,924,000.

10. EPS Calculation

The following table presents the reconciliation between basic and diluted shares outstanding used in calculating basic and diluted EPS for the three months ended March 31, 2003 and 2002:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2003 | 2002 |
| (In Thousands) | | |
| Weighted average shares outstanding - basic | 46,316 | 34,329 |
| Add effect of assumed shares issued under treasury stock method for stock options | 62 | 124 |
| Weighted average shares outstanding - diluted | 46,378 | 34,453 |





11. Accumulated Other Comprehensive Income

Accumulated other comprehensive income at March 31, 2003 and December 31, 2002 was as follows:

| | March 31, 2003 | December 31, 2002 |
|---|---|---|
| (In Thousands) | | |
| Unrealized gains on available-for-sale: | | |
| MBS | $ 25,974 | $ 27,155 |

| | | |
|---|---|---|
| Unrealized losses on available for sale: MBS | (689) | (423) |
| | 25,285 | 26,732 |
| Hedging Instruments: | | |
| Unrealized depreciation on interest rate cap agreements | (3,266) | (2,937) |
| Accumulated other comprehensive income | $ 22,019 | $ 23,795 |

12. 1997 Stock Option Plan and Employment Agreements

(a) 1997 Stock Option Plan

The Company's Second Amended and Restated 1997 Stock Option Plan (the "1997 Plan") authorizes the granting of options to purchase an aggregate of up to 1,400,000 shares of the Company's common stock, but not more than 10% of the total outstanding shares of the Company's common stock. The Plan authorizes the Board of Directors, or a committee of the Board of Directors, to grant Incentive Stock Options ("ISOs"), as defined under section 422 of the Code, non-qualified stock options ("NQSOs") and dividend equivalent rights ("DERs") to eligible persons. The exercise price for any options granted to eligible persons under the 1997 Plan shall not be less than the fair market value of the common stock on the day of the grant. The options expire if not exercised ten years from the date of grant or upon certain other conditions.

DERs on the ISOs vest on the same basis as the options and DERs on NQSOs become fully vested one year following the date of grant. Dividends are paid on vested DERs only to the extent of ordinary income. DERs are not entitled to distributions representing a return of capital. Dividends paid on ISOs are charged to stockholders' equity when declared and dividends paid on NQSOs are charged to earnings when declared. For the three months ended March 31, 2003 and 2002, the Company recorded charges of $126,000 and $150,000, respectively, to stockholders' equity (included in dividends paid or accrued) associated with the DERs on ISOs and charges of $700 and $1,125, respectively, to earnings associated with DERs on NQSOs. At March 31, 2003, the Company had 452,500 DERs, all of which were fully vested.

The ISOs granted to the executive officers of the Company, who were also employees of the Advisor, were accounted for under the fair value method established under FAS 123, resulting in option related expenses recognized over the vesting period. Management used the Black-Scholes valuation model to determine the option expense. Since the Company commenced operations in 1998, management used assumptions consistent with activity of a comparable peer group of companies including an estimated option life, a volatility rate, a risk free rate and a current dividend yield for the 1998 and 1999 grants (or 0% if the related DERs are issued).

Effective January 1, 2002, the status of the employees of the Advisor changed such that they became employees of the Company, resulting in a change in status of these individuals. Accordingly, the unvested options outstanding as of January 1, 2002 were treated as newly granted options to employees and accounted for under the APB 25, with the difference between the fair market value of the company's common stock and option price expensed over the remaining vesting period of approximately seven months. The Company did not incur any expense for stock options during the quarter ended March 31, 2003; for the quarter ended March 31, 2002, the Company recognized $24,000 of employee related compensation expense for stock options.





NQSOs were granted to the Company's directors as consideration for the performance of their duties as directors. The Company treated the directors as employees for purposes of applying FAS 123 and, in accordance with its policy, accounted for the NQSOs under APB 25, as described earlier, with no expense recognized for the NQSOs, as the exercise price at the time of grant was equal to the market value of the stock.

(b) Employment Agreements

On March 12, 2002, the Board of Directors adopted new compensation plans for Messrs. Zimmerman, Gorin and Freydberg that took effect on August 1, 2002. Under their employment agreements, salaries to be paid to Messrs. Zimmerman, Gorin, and Freydberg will be equal to 0.25%, 0.20% and 0.20%, respectively, of the Company's tangible net worth, which will be calculated on a semi-annual basis on each June 30 and December 31. In the event that the Company's annualized return on equity for any given six-month period were to fall below 10%, the salaries to be paid to Messrs. Zimmerman, Gorin and Freydberg with

respect to the following six-month period would be adjusted downward to equal (i) 0.2375%, 0.19% and 0.19%, respectively, of the Company's tangible net worth if its annualized return on equity was between 10% and 5% and (ii) 0.225%, 0.18% and 0.18%, respectively, of the Company's tangible net worth if its annualized return on equity was less than 5%. Notwithstanding the foregoing, the annual base salaries payable to Messrs. Zimmerman, Gorin and Freydberg pursuant to the new compensation plan will in no event exceed $1,000,000, $750,000 and $750,000, respectively. On October 1, 2002, the Company entered into an employment agreement with Ms. Teresa Covello, the Company's Senior Vice President/Controller, and effective March 13, 2003 was named the Company's Chief Accounting Officer, that provides for, among other things, a base salary of $140,000.

(c) Deferred Compensation Plans

On December 19, 2002, the Company's Board of Directors adopted the MFA Mortgage Investments, Inc. 2003 Nonemployee Directors' Deferred Compensation Plan and the MFA Mortgage Investments, Inc. Senior Officers Deferred Bonus Plan (collectively, the "Deferred Plans"). Directors and senior officers of the Company may elect to defer a percentage of their compensation under the Deferred Plans for compensation earned subsequent to December 31, 2002. The Deferred Plans are intended to provide non-employee Directors and Senior Officers of the Company with an opportunity to defer up to 100% of certain compensation, as defined in the Deferred Plans, while at the same time aligning their interests with the interests of the stockholders. Amounts deferred are considered to be converted into "stock units" of the Company, which do not represent stock of the Company, but rather the right to receive a cash payment equal to the fair market value of an equivalent number of shares of the Common Stock. Deferred accounts increase or decrease in value as would equivalent shares of the Common Stock and 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 ("ERISA") and are not funded. Prior to the time that the deferred accounts are settled, participants are unsecured creditors of the Company.

The Deferred Plans are intended to be non-qualified deferred compensation plans under the provisions of the Code. At the time a participant's deferral of compensation is made, it is intended that such participant will not recognize income for federal income tax purposes, nor will the Company receive a deduction until such time that the compensation is actually distributed to the participant.



Item 2.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements and notes thereto included in Item 1 of this Quarterly Report on Form 10-Q as well as in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

### GENERAL

MFA Mortgage Investments, Inc. is a self-advised mortgage REIT, which is primarily engaged in the business of investing in adjustable rate MBS. The Company's investment portfolio consists primarily of MBS issued or guaranteed as to principal or interest by a U.S. Government agency or federally chartered corporation, such as Ginnie Mae, Fannie Mae or Freddie Mac (collectively referred to as "Agency Securities"), and, to a lesser extent, high quality MBS, rated in one of the two highest rating categories by at least one nationally recognized rating agency. The Company's investment strategy also provides for the acquisition of multi-family housing properties, investments in REIT securities and other securities. The Company's principal business objective is to generate net income for distribution to its stockholders, resulting from the spread between the interest and other income it earns on its investments and the cost of financing such investments.

The Company has elected to be taxed as a REIT for federal income tax purposes. Pursuant to the current federal tax regulations, one of the requirements of maintaining its status as a REIT is that the Company must distribute at least 90% of its annual taxable net income to its stockholders, subject to certain adjustments.

The Company was incorporated in Maryland on July 24, 1997 and began operations on April 10, 1998 when it merged with the Prep Funds. As a result of the 1998 Merger, Prep Fund 1 and Prep Fund 2 were merged directly into the Company and Pension Fund became a partnership subsidiary of the Company. In December 1999, Pension Fund was liquidated and dissolved and, as a result, the Company acquired approximately 99% of the assets of Pension Fund. The remaining assets, consisting solely of cash, were distributed to the holders of Pension Fund securities who elected to remain in place following the 1998 Merger. As a

result of the 1998 Merger, the Company issued a total of 9,035,084 shares of its Common Stock to the former partners of the Prep Funds.

Following the completion of the 1998 Merger through December 31, 2001, the Company was externally advised and managed REIT. As such, the Company had no employees and relied entirely on the Advisor to perform all of the duties that are generally performed by internal management. Pursuant the an agreement with the Advisor, the Advisor provided the day-to-day management and administrative functions for the Company's operations for a fee, which was calculated on a quarterly basis. The Advisor was a subsidiary of AFC.

On December 12, 2001, the Company's stockholders approved the terms of the Advisor Merger Agreement, dated September 24, 2001, among the Company, the Advisor, AFC and the stockholders of the Advisor which provided for the Advisor Merger. The Advisor Merger became effective on January 1, 2002. As a result of the Advisor Merger, the Company became a self-advised REIT. In connection with the Advisor Merger, the employees of the Advisor became employees of the Company and the Company assumed the employment contracts of these individuals. The Company also acquired all of the tangible and intangible business assets of the Advisor.

The Company's core business strategy is to invest on a leveraged basis in a portfolio of high-grade adjustable rate MBS, which primarily consist of Agency MBS. Beginning in June 2001, the Company began to significantly increase its asset base by leveraging equity raised through public offerings of the Company's common stock. As a result, the Company has experienced significant growth in interest income, interest expense and net interest income. The Company's total assets were $3.6 billion at March 31, 2003 and December 31, 2002. As of March 31, 2003, 98.5% of the Company's assets consisted of Agency MBS, AAA rated MBS and cash. The Company also has indirect interests in four apartment properties and a controlling indirect interest in two apartment properties, these six properties contain a total of 1,473 rental units. Four of these apartment properties are located in Georgia, one is located in North Carolina and one is located in Nebraska.

The results of the Company's operations are affected by various factors, many of which are beyond the control of the Company. The results of the Company's operations primarily depend on, among other things, the level of its net interest income, the market value of its assets and the supply of and demand for such assets. The Company's net interest income, which reflects the amortization of purchase premiums, varies primarily as a result of changes in short-term interest rates, borrowing costs and prepayment rates, the behavior of which involves various risks and



uncertainties. Prepayment rates, as reflected by the constant prepayment rate ("CPR"), and interest rates vary according to the type of investment, conditions in financial markets, competition and other factors, none of which can be predicted with any certainty. The CPR on the Company's MBS portfolio averaged 33% for the quarter ended March 31, 2003. In addition to these factors, borrowing costs are further affected by the creditworthiness of the borrower. Since changes in interest rates may significantly affect the Company's activities, the operating results of the Company depend, in large part, upon the ability of the Company to effectively manage its interest rate and prepayment risks while maintaining its status as a REIT. The Company also has risks inherent in its other investments, comprised of interests in multi-family real estate properties and hedging instruments. Because these investments represented less than 1.0% of the Company's total assets at March 31, 2003, the risk related to these assets is limited; nonetheless, these investments have the potential of causing a material impact on the Company's operating performance in future periods.

## RESULTS OF OPERATIONS

### Three Month Period Ended March 31, 2003 Compared to the Three Month Period Ended March 31, 2002

Net income increased to $15.3 million for the three months ended March 31, 2003, reflecting basic and diluted earnings per share of $0.33, from $9.6 million, or basic and diluted earnings per share of $0.28, for the three months ended March 31, 2002. Comparing the first quarter of 2003 to the first quarter of 2002, the Company's core net revenue, comprised of net interest income, increased by $3.5 million, or 25%, to $17.2 million for the 2003 period from $13.8 million for the 2002 period. During the quarter ended March 31, 2002, the Company had a non-recurring $3.5 million charge for an other-than-temporary impairment against an investment in corporate debt securities.

During the three months ended March 31, 2003, total interest and dividend income increased $4.9 million, or 18.1%, to $32.2 million from $27.3 million for the three months ended March 31, 2002. The Company's average interest-earning assets for the three months ended March 31, 2003 were $3.52 billion, compared to $2.38 billion for the first quarter of 2002. The increase in interest income generated by the growth in interest-earning assets, which growth was facilitated

by leveraging equity raised through public offerings of the Company's common stock, was partially offset by a decrease in the yield on interest-earning assets to 3.66% from 4.65% for the first quarter of 2002.

The Company's interest expense on its repurchase agreements increased by $1.5 million, or 11.0%, to $15.0 million, for the three months ended March 31, 2003, compared to $13.5 million for the first quarter of 2002. The overall increase in interest expense reflects the significant increase in borrowings, reflecting the leveraging of proceeds received from the Company's common stock offerings, partially offset by a 64 basis point (i.e., one basis point equals 1/100 of 1%) decrease in the cost of borrowings, which decreased to 1.91% for the quarter ended March 31, 2003 from 2.55% for the quarter ended March 31, 2002. (See Liquidity and Capital Resources.)

Total other income increased to $327,000 for the first quarter of 2003, from a loss of $3.0 million for the first quarter of 2002. This $3.3 million increase primarily reflects the impact of a non-recurring $3.5 million charge taken in the first quarter of 2002 for an other-than-temporary impairment on investment corporate debt securities. This loss was entirely attributable to an investment in the corporate debt securities of Level 3 Corporation. The Company liquidated all of its corporate debt and equity portfolios during 2002, and currently has no plans to resume investing in such instruments.

Prior to October 1, 2002, the Company accounted for its non-controlling interest in the preferred stock of RCC under the equity method, whereby RCC's results of operations were reported net, relative the Company's equity interest. On October 1, 2002, the Company acquired 100% of the voting common stock in RCC, and commenced accounting for such subsidiary on a consolidated basis, prospectively. (See Notes 3c and 6 to the accompanying consolidated financial statements.) This change in ownership and resulting change in accounting for RCC caused certain line items of the Company's statement of operations for the quarter ended March 31, 2003 to be non-comparable to the results of operations for the quarter ended March 31, 2002 presentation. As of March 31, 2003, the Company had indirect interests in six multi-family properties consisting of a total of 1,473 rental units, through investments in four limited partnerships and one corporation as a common stockholder. In the aggregate, real estate equity interests and real estate, which is owned through a consolidated subsidiary, comprised less than 1.0% of the Company's total assets at March 31, 2003.



The Company did not sell any of its investments during the quarter ended March 31, 2003; during the quarter ended March 31, 2002, the Company realized gains of $595,000 and losses of $181,000 on the sale of equity and MBS.

During the first quarter of 2003, the Company had operating and other expenses of $2.2 million, compared to $1.2 million for the first quarter of 2002. This $1.0 million increase reflects $550,000 of mortgage interest and other expenses related to the real estate properties held by RCC, which prior to October 1, 2002 were accounted for under the equity method and reported as a net component of income from equity interests in real estate. Compensation and benefits increased by $132,000 from $819,000 to $951,000, primarily reflecting the additional staff hired to operate as an internally managed Company.

Other general and administrative expense increased by $310,000 to $703,000 for the quarter ended March 31, 2003, compared to $393,000 for the quarter ended March 31, 2002, primarily reflecting the cost of the new headquarters that the Company began occupying during the third quarter of 2002. In addition, market based increases for the cost of corporate insurance have been experienced by the Company. Management expects other operating expenses to increase over the remainder of 2003, as costs will be incurred to comply with new rules promulgated by the Securities and Exchange Commission and New York Stock Exchange in connection with the Sarbanes-Oxley Act.

## Liquidity and Capital Resources

The Company's principal sources of liquidity consist of borrowings under repurchase agreements, principal payments received on its portfolio of MBS, cash flows generated by operations and proceeds from capital market transactions. The Company's principal uses of cash include purchases of MBS and, to a lesser extent, may include purchases of hedge instruments; payments for operating expenses and dividends on the Company's Common Stock; and investments in real estate assets.

Borrowings under repurchase agreements were $3.2 billon as of March 31, 2003, and December 31, 2002. At March 31, 2003, the Company's repurchase agreements had a weighted average borrowing rate of 1.75%, on loan balances of between $350,000 and $77.0 million. These agreements generally have original terms to maturity ranging from one month to 18 months and interest rates that are typically based off of LIBOR. However, management has recently noted the increased availability of repurchase agreements extending as long as 36 months, and expects to extend a portion of the maturing agreements into such longer term agreements. In addition, management may also purchase hybrid MBS that have a

fixed rate for up to five years (i.e., 5/1 MBS) and adjust annually thereafter, compared to the present three year fixed term limit. To date, the Company has not had any margin calls on its repurchase agreements that it was unable to satisfy with either cash or additional pledged collateral.

To the extent the Company raises additional equity capital from future capital market transactions, the Company anticipates using the net proceeds primarily to acquire additional ARM-MBS on a leveraged basis. Management may also consider additional interests in multi-family apartment properties and other investments consistent with its operating policies. There can be no assurance, however, that the Company will be able to raise additional equity capital at any particular time or on any particular terms.

During the quarter ended March 31, 2003, principal payments on MBS generated cash of $421.5 million and operations provided $22.4 million in cash. As part of its core investing activities, during the first quarter of 2003, the Company acquired $482.1 million of MBS, all of which were either Agency or AAA rated adjustable rate or hybrid MBS. Other uses of funds during the quarter included payments of $14.9 million for dividends on the Company's outstanding common stock and DERs.

The Company's restricted cash balance represents cash held on deposit with certain counterparties (i.e., lenders) to satisfy margin calls on repurchase agreements. The margin calls result from the decline in the value of the MBS securing repurchase agreements, generally due to principal reduction in the MBS from scheduled amortization and prepayments. At the time a repurchase agreement rolls (i.e., matures), the Company will apply the restricted cash against the repurchase agreement, thereby reducing the borrowing.

The Company believes it has adequate financial resources to meet its obligations as they come due and to fund committed dividends as well as to actively pursue its investment policies. However, should market interest rates



suddenly spike, margin calls due to a decline in the market value of the MBS collateralizing the Company's repurchase agreements could result, causing an adverse change in the Company's liquidity position.

## OTHER MATTERS

The Company at all times intends to conduct its business so as to not become regulated as an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"). If the Company were to become regulated as an investment company, then, among other things, the Company's ability to use leverage would be substantially reduced. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interest in real estate" (i.e., "Qualifying Interest"). Under the current interpretation of the staff of the Securities and Exchange Commission, in order to qualify for this exemption, the Company must maintain at least 55% of its assets directly in Qualifying Interests. In addition, unless certain mortgage securities represent an undivided interest in the entire pool backing such mortgage securities (i.e., "whole pool" mortgage securities"), such mortgage securities may be treated as securities separate from the underlying mortgage loan and, thus, may not be considered Qualifying Interests for purposes of the 55% exemption requirement. Accordingly, the Company monitors its compliance with this requirement in order to maintain its exempt status. As of March 31, 2003, the Company determined that it is in and has maintained compliance with this requirement.

## INFLATION

Virtually all of the Company's assets and liabilities are financial in nature. As a result, changes in interest rates and other factors impact our performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates and changes in inflation rates. Our financial statements are prepared in accordance with Generally Accepted Accounting Principles and our dividends are based upon net income as calculated for tax purposes; in each case, our activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

## FORWARD LOOKING STATEMENTS

When used in this Quarterly Report on Form 10-Q, in future filings with the Securities and Exchange Commission, or in press releases or other written or oral communications, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" for purposes of Section 27A if the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as such may involve know and unknown risks, uncertainties and assumptions.

These forward-looking statements are subject to various risks and

uncertainties, including, but not limited to, those relating to: increases in the prepayment rates on the mortgage loans securing the Company's MBS; changes in short-term interest rates; the Company's ability to use borrowings to finance its assets; risks associated with investing in real estate, including changes in business conditions and the general economy; changes in government regulations affecting the Company's business; and the Company's ability to maintain its qualification as a REIT for federal income tax purposes. These risks, uncertainties and factors could cause the Company's actual results to differ materially from those projected in any forward-looking statements it makes.

All forward-looking statements speak only as the date they are made and the Company does not undertake, and specifically disclaims, any obligation to update any forward-looking statement to reflect events or circumstances after the date of such statements. Readers are cautioned that the Company's actual results could differ materially from those set forth in such forward-looking statements.



Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company seeks to manage the interest rate, market value, liquidity, prepayment and credit risks inherent in all financial institutions in a prudent manner designed to insure the longevity of the Company while, at the same time, seeking to provide an opportunity to stockholders to realize attractive total rates of return through stock ownership of the Company. While the Company does not seek to avoid risk, it does seek, to the best of its ability, to assume risk that can be quantified from historical experience, to actively manage such risk, to earn sufficient compensation to justify the taking of such risks and to maintain capital levels consistent with the risks it does undertake.

INTEREST RATE RISK

The Company primarily invests in adjustable rate and hybrid MBS. The hybrid-MBS represent fixed rate coupons for a specified period, generally three years, and thereafter converts to a variable rate coupon. The Company's debt obligations are generally repurchase agreements of limited duration, which are periodically refinanced at new market rates. The Company expects to extend the terms on its hybrid-MBS to include 5/1 ARM-MBS, which will have a fixed rate for five years and adjust annually thereafter. In addition, the Company would also expect to extend the terms on its repurchase agreements to include three year fixed rate obligations.

The interest rates for most of the Company's adjustable rate assets are dependent on the one-year constant maturity treasury ("CMT") rate, while debt obligations, in the form of repurchase agreements, are generally dependent on LIBOR. These indexes generally move in parallel, but there can be no assurance that this will continue to occur.

The Company's adjustable rate investment assets and debt obligations reset on various dates that differ for the specific asset or obligation. In general, the repricing of the Company's debt obligations occurs more quickly than the repricing of assets. Therefore, on average, the Company's cost of funds may rise or fall more quickly than does its earnings rate on the assets. Further, the Company's net income may vary somewhat as the yield curve between one-month interest rates and six-and 12-month interest rate varies.

The following table presents the Company's interest rate risk using the static gap methodology. The table presents the difference between the carrying value of the Company's interest rate sensitive assets and liabilities at March 31, 2003, based on the earlier of term to repricing or the term to repayment of the asset or liability, scheduled principal amortization is not reflected in the table. Further, MBS can be prepaid before contractual amortization and/or maturity, which is also not reflected in the table. The table does not include assets and liabilities that are not interest rate sensitive.

As of March 31, 2003, the Company's investment assets and debt obligations will prospectively reprice based on the following time frames:

| | As of March 31, 2003 | | | | | |
|---|---|---|---|---|---|---|
| (In Thousands) | Less than Six Months | Six Months to One Year | One Year to Two Years | Two Years to Year Three | Beyond Three Years | Total |
| Interest Earning Assets: | | | | | | |
| Adjustable Rate - MBS | $ 708,764 | $ 441,337 | $ 662,201 | $ 1,716,727 | $ -- | $ |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | 3,529,029 |
| Fixed-Rate - MBS | -- | -- | -- | -- | 6,693 | 6,693 |
| Total interest-earning assets | 708,764 | 441,337 | 662,201 | 1,716,727 | 6,693 | 3,535,722 |
| Interest Bearing Liabilities: | | | | | | |
| Repurchase agreements | 1,900,341 | 928,796 | 382,440 | -- | -- | 3,211,577 |
| Total interest-bearing liabilities | 1,900,341 | 928,796 | 382,440 | -- | -- | 3,211,577 |
| Interest sensitivity gap | $(1,191,577) | $ (487,459) | $ 279,761 | $ 1,716,727 | $ 6,693 | $ 324,145 |
| Cumulative interest sensitivity gap | $(1,191,577) | $(1,679,036) | $(1,399,275) | $ 317,452 | $ 324,145 | |

</TABLE>

The difference between assets and liabilities repricing or maturing in a given period is one approximate measure of interest rate sensitivity. When more assets than liabilities reprice during a period, the gap is considered positive and it is anticipated that earnings will increase as interest rates rise and earnings will decrease as interest rates



decline. When more liabilities reprice than assets during a given period, as is the case with respect to the Company for periods less than one year, the gap is considered negative. With a negative gap it is anticipated that income will decline as interest rates increase and income will increase as interest rates decline. The static gap analysis does not reflect the constraints on the repricing of adjustable rate MBS in a given period resulting from periodic and life time cap features on these securities, nor the behavior of various indexes applicable to the Company's assets and liabilities.

To a limited extent, the Company uses Cap Agreements as part of its interest rate risk management. The notional amounts of these instruments are not reflected in the Company's balance sheet. The Cap Agreements that hedge against increases in interest rates on the Company's LIBOR-based repurchase agreements are not considered in the static gap analysis, as they do not effect the timing of the repricing of the instruments they hedge, but rather to the extent of the notional amount, cap the limit on the amount of interest rate change that can occur relative to the applicable of the hedged liability. The Company's Caps are intended to serve as a hedge against future interest rate increases on the Company's repurchase agreements, which are typically priced off of LIBOR. As of March 31, 2003, the Company had $310.0 million of notional amount of Caps, with a weighted average strike rate for the one-month LIBOR of 4.54%. (See Note 5 to the accompanying Consolidated Financial Statements.)

MARKET VALUE RISK

Substantially all of the Company's investments are designated as "available-for-sale" assets. As such, they are reflected at their estimated fair value, with the difference between amortized cost and fair value reflected in accumulated other comprehensive income, a component of stockholders' equity. (See the Consolidated Statements of Comprehensive Income and Note 11 to the accompanying Consolidated Financial Statements.) The market value of the Company's MBS assets fluctuate primarily due to changes in interest rates and other factors; however, given that these securities are issued or guaranteed as to principal or interest by an agency or federally chartered corporation of the U.S. Government or "AAA" rated, such fluctuations are generally not based on the underlying credit worthiness.

LIQUIDITY RISK

The primary liquidity risk of the Company arises from financing long-maturity assets with short-term debt in the form of repurchase agreements. The Company had no long-term debt at March 31, 2003. Although the interest rate adjustments of these assets and liabilities are matched within the Company's operating policies, maturities are not required to be nor are they matched.

The Company's assets which are pledged to secure short-term borrowings are high-quality, liquid assets. As a result, the Company has not had difficulty rolling over (i.e., renewing) its short-term debt as it matures. However, the Company cannot give assurances that it will always be able to roll over its short-term debt. At March 31, 2003, the Company had cash and cash equivalents of $34.9 million available to meet margin calls on repurchase agreements and for other corporate purposes.

## PREPAYMENT AND REINVESTMENT RISK

As the Company receives repayments of principal on its MBS, premiums on the corresponding securities are amortized against interest income, discounts on MBS are accreted to income and increase interest income reported. Premiums arise when the Company acquires a MBS at a price in excess of the principal value of the mortgages or par value if purchased at the original issue. Conversely, discounts arise when the Company acquires a MBS at a price below the principal value of the mortgages, or par, if purchased at original issue. For financial accounting purposes, the premium is amortized using the effective yield method, which reflects the effect of prepayments on amortization of premium and accretion of discounts. In general, an increase in the prepayment rate will accelerate the amortization of premiums, thereby reducing interest income.

For tax accounting purposes, the premium is amortized based on the asset yield at the purchase date. Therefore, on a tax basis, amortization of premiums will differ from those reported for financial purposes. At March 31, 2003, the gross unamortized premium for adjustable rate MBS for financial accounting purposes was $78.9 million (2.2% of the carrying value of MBS) while the amount for federal tax purposes was estimated at $72.1 million.

In general, the Company believes it will be able to reinvest proceeds from scheduled principal payments and



prepayments at acceptable yields; however, no assurances can be given that, should significant prepayments occur, market conditions would be such that acceptable investments could be identified and the proceeds reinvested.

### Item 4. Controls and Procedures

A review and evaluation was performed by the Company's management, including the Company's Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing of this quarterly report. Based on that review and evaluation, the CEO and CFO have concluded that the Company's current disclosure controls and procedures, as designed and implemented, were effective. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the date of their evaluation. There were no significant material weaknesses identified in the course of such review and evaluation and, therefore, no corrective measures were taken by the Company.



## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company is a party or any of its assets are subject.

### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

2.1 Agreement and Plan of Merger by and among the Registrant, America First Participating/Preferred Equity Mortgage Fund Limited Partnership, America First Prep Fund 2 Limited Partnership, America First Prep Fund 2 Pension Series Limited Partnership and certain other parties, dated as of July 29, 1997 (incorporated herein by reference to Exhibit 2.1 of the Registration Statement on Form S-4 dated February 12, 1998, filed by the Registrant pursuant to the Securities Act of 1933 (Commission File No. 333-46179)).

2.2 Agreement and Plan of Merger by and among the Registrant, America First Mortgage Advisory Corporation ("AFMAC") and the shareholders of AFMAC, dated September 24, 2001 (incorporated herein by reference to Exhibit A of the Preliminary Proxy Statement dated October 9, 2001, filed by the Registrant pursuant to the Securities Exchange Act of 1934 (Commission File No. 1-13991)).

3.1 Amended and Restated Articles of Incorporation of the Registrant (incorporated herein by reference to Form 8-K dated April 10, 1998, filed by the Registrant pursuant to the Securities Exchange Act of 1934 (Commission File No. 1-13991)).

3.2 Amended and Restated Bylaws of Registrant (incorporated herein by reference to Form 8-K dated August 13, 2002, filed by the Registrant pursuant to the Securities Exchange Act of 1934 (Commission File No.

1-13991)).

4.1 Specimen of Common Stock Certificate of the Company (incorporated herein by reference to Exhibit 4.1 of the Registration Statement on Form S-4, dated February 12, 1998, filed by the Registrant pursuant to the Securities Act of 1933 (Commission File No. 333-46179)).

10.1 Employment Agreement of Stewart Zimmerman, dated August 1, 2002 (incorporated herein by reference to Exhibit 10.1 of the Form 10-Q, dated September 30, 2002, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

10.2 Employment Agreement of William S. Gorin, dated August 1, 2002 (incorporated herein by reference to Exhibit 10.2 of the Form 10-Q, dated September 30, 2002, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

10.3 Employment Agreement of Ronald A. Freydberg, dated August 1, 2002 (incorporated herein by reference to Exhibit 10.3 of the Form 10-Q dated September 30, 2002, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

10.4 Employment Agreement of Teresa D. Covello, dated October 1, 2002 (incorporated herein by reference to Exhibit 10.4 of the Form 10-K, dated December 31, 2002, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

10.5 Amended and Restated 1997 Stock Option Plan of the Company (incorporated herein by reference to the Form 10-K, dated December 31, 1999, filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (Commission File No. 1-13991)).

10.6 Second Amended and Restated 1997 Stock Option Plan of the Company (incorporated herein by reference to the Form 10-Q, dated August 10, 2001, filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (Commission File No. 1-13991)).

10.7 MFA Mortgage Investments, Inc. Senior Officers Deferred Compensation Plan, adopted December 19, 2002 (incorporated herein by reference to Exhibit 10.7 of the Form 10-K, dated December 31, 2002, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).



10.8 MFA Mortgage Investments, Inc. 2003 Non-Employee Directors Deferred Compensation Plan, adopted December 19, 2002 (incorporated herein by reference to Exhibit 10.8 of the Form 10-K, dated December 31, 2002, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

99.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Reports on Form 8-K

The Company filed a Current Report on Form 8-K on March 11, 2003, reporting under Item 5 "Other Events" the retirement of Michael B. Yanney and the appointment of Stewart Zimmerman as the Company's new Chairman of the Board effective as of March 6, 2003.

The Company filed a Current Report on Form 8-K on March 19, 2003 reporting under Item 4, "Changes in Registrant's Certifying Accountant" the Company's dismissal of PricewaterhouseCoopers LLP as its independent public accountants on March 13, 2003; and the Company's engagement of Ernst & Young LLP, as its independent auditors, to replace PricewaterhouseCoopers LLP.



SIGNATURES

Pursuant to the requirements 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: April 21, 2003 MFA MORTGAGE INVESTMENTS, INC.

By: /s/ Stewart Zimmerman
----------------------------------------
Stewart Zimmerman

President and Chief Executive Officer

By: /s/ William S. Gorin
---------------------------------------
William S. Gorin
Executive Vice President Chief Financial
Officer/Treasurer
(Principal Accounting Officer)



CERTIFICATIONS

I, Stewart Zimmerman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MFA Mortgage Investments, Inc. (the "registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

    a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

    b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

    c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 21, 2003

/s/ Stewart Zimmerman
---------------------
Name: Stewart Zimmerman
Title: President and Chief Executive Officer



I, William S. Gorin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MFA Mortgage Investments, Inc. (the "registrant");

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 21, 2003

/s/ William S. Gorin
--------------------

Name: William S. Gorin
Title: Executive Vice President and Chief Financial Officer

Exhibit 99.1

Certification of Chief Executive Officer
Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

The undersigned, the Chief Executive Officer of MFA Mortgage Investments, 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 the Quarterly Report on Form 10-Q for the quarter period ended March 31, 2003 (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/ Stewart Zimmerman      Dated: April 21, 2003
Stewart Zimmerman
Title: Chief Executive Officer

Exhibit 99.2

Certification of Chief Financial Officer
Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

The undersigned, the Chief Financial Officer of MFA Mortgage Investments, 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 the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (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/ William S. Gorin
William S. Gorin
Title: Chief Financial Officer

Dated: April 21, 2003