

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

FORM 10-Q

▫ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2004

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
(State or other jurisdiction of incorporation or organization)

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

350 Park Avenue, 21st Floor, New York, New York
(Address of principal executive offices)

10022
(Zip Code)

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

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

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

76,027,323 shares of the registrant's common stock, \$0.01 par value, were outstanding as of April 26, 2004.

TABLE OF CONTENTS

	<u>Page</u>
PART I	
Financial Information	
Item 1. Financial Statements	
Consolidated Statements of Financial Condition as of March 31, 2004 (Unaudited) and December 31, 2003	1
Consolidated Statements of Income (Unaudited) for the Three Months Ended March 31, 2004 and March 31, 2003	2
Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the Three Months Ended March 31, 2004	3
Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 2004 and March 31, 2003	4
Consolidated Statements of Comprehensive Income (Unaudited) for the Three Months Ended March 31, 2004 and March 31, 2003	5
Notes to the Consolidated Financial Statements (Unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	28
PART II	
Other Information	
Item 1. Legal Proceedings	29
Item 6. Exhibits and Reports on Form 8-K	29
Signatures	31

TABLE OF CONTENTS

PART I Financial Information

Item 1. Financial Statements

[Consolidated Statements of Financial Condition as of March 31, 2004
\(Unaudited\) and December 31, 2003](#)

[Consolidated Statements of Income \(Unaudited\) for the
Three Months Ended March 31, 2004 and March 31, 2003](#)

[Consolidated Statements of Changes in Stockholders' Equity \(Unaudited\)
for the Three Months Ended March 31, 2004](#)

[Consolidated Statements of Cash Flows \(Unaudited\) for the
Three Months Ended March 31, 2004 and March 31, 2003](#)

[Consolidated Statements of Comprehensive Income \(Unaudited\)
for the Three Months Ended March 31, 2004 and March 31, 2003](#)

[Notes to the Consolidated Financial Statements \(Unaudited\)](#)

[Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

[Item 3. Quantitative and Qualitative Disclosures About Market Risk](#)

[Item 4. Controls and Procedures](#)

PART II Other Information

[Item 1. Legal Proceedings](#)

[Item 6. Exhibits and Reports on Form 8-K](#)

[Signatures](#)

[10.3 Employment Agreement of Ronald A. Freyberg, dated March 30, 2004.](#)

[31.1 Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[31.2 Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)

[32.1 Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

[32.2 Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)

MFA MORTGAGE INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In Thousands, Except Share and Per Share Amounts)

	March 31, 2004	December 31, 2003
	(Unaudited)	
Assets:		
Mortgage-backed securities ("MBS") (Note 4)	\$ 5,697,601	\$ 4,372,718
Cash and cash equivalents	68,608	139,707
Accrued interest receivable	22,582	18,809
Interest rate cap agreements (Note 5)	2,071	276
Real estate held for investment (Note 6)	30,500	24,288
Goodwill, net	7,189	7,189
Receivable under Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan ("DRSPP") (Note 9)	11,031	705
Prepaid and other assets	1,792	1,238
	\$ 5,841,374	\$ 4,564,930
Liabilities:		
Repurchase agreements (Note 7)	\$ 5,155,660	\$ 4,024,376
Accrued interest payable	11,200	7,239
Mortgages payable on real estate	22,832	16,161
Dividends payable	-	15,923
MBS purchase payable	2,659	15,010
Accrued expenses and other liabilities	1,210	1,263
	\$ 5,193,561	\$ 4,079,972
Commitments and contingencies (Note 8)	-	-
Stockholders' Equity:		
Common stock, \$.01 par value; 375,000,000 shares authorized; 74,976,327 and 63,201,224 issued and outstanding at March 31, 2004 and December 31, 2003, respectively	750	632
Additional paid-in capital	626,348	512,199
Accumulated earnings/(deficit) (Note 9)	6,141	(15,764)
Accumulated other comprehensive income/(loss) (Note 11)	14,574	(12,109)
	647,813	484,958
	\$ 5,841,374	\$ 4,564,930

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

**MFA MORTGAGE INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended March 31,	
	2004	2003
	(Unaudited)	
<i>(In Thousands, Except Per Share Amounts)</i>		
Interest Income:		
MBS income	\$ 40,066	\$ 32,065
Interest income on temporary cash investments	167	123
	40,233	32,188
Interest Expense on Repurchase Agreements	16,141	14,967
	24,092	17,221
Other Income:		
Revenue from operations of real estate	1,002	427
Loss from equity interest in real estate	–	(100)
Miscellaneous other income	162	–
	1,164	327
Operating and Other Expense:		
Compensation and benefits	1,467	951
Real estate operating expense	709	347
Mortgage interest on real estate	426	203
Other general and administrative	749	703
	3,351	2,204
Net Income	\$ 21,905	\$ 15,344
Income Per Share:		
Net income per share – basic	\$ 0.32	\$ 0.33
Weighted average shares outstanding – basic	68,910	46,316
Net income per share – diluted	\$ 0.32	\$ 0.33
Weighted average shares outstanding – diluted	69,001	46,378

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

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

	Three Months Ended March 31, 2004
<i>(In Thousands, Except Per Share Amounts)</i>	
Common Stock (Par Value \$.01):	
Balance at December 31, 2003	\$ 632
Issuance of shares, net of offering expense	86
Issuance of shares pursuant to DRSP, net of expenses	32
	750
Balance at March 31, 2004	750
Additional Paid-in Capital:	
Balance at December 31, 2003	512,199
Issuance of common stock, net of expenses	82,751
Issuance of common stock pursuant to DRSP, net of expenses	31,227
Exercise of common stock options	-
Compensation expense for common stock options	171
	626,348
Balance at March 31, 2004	626,348
Accumulated Income/(Deficit):	
Balance at December 31, 2003	(15,764)
Net income	21,905
	6,141
Balance at March 31, 2004	6,141
Accumulated Other Comprehensive Income/(Loss):	
Balance at December 31, 2003	(12,109)
Unrealized gain on MBS during period, net	26,878
Unrealized loss on interest rate cap agreements	(195)
	14,574
Balance at March 31, 2004	14,574
Total Stockholders' Equity	\$ 647,813

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

MFA MORTGAGE INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2004	2003
	(Unaudited)	
<i>(In Thousands)</i>		
Cash Flows From Operating Activities:		
Net income	\$ 21,905	\$ 15,344
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of purchase premiums on investments	8,420	8,741
Amortization of premium cost for interest rate cap agreements	405	9
Decrease in interest receivable	(3,773)	(277)
Increase in other assets and other	(356)	(430)
Decrease in accrued expenses and other liabilities	(12,508)	(185)
Increase (decrease) in accrued interest payable	3,918	(764)
Stock option expense	171	-
	18,182	22,438
Cash Flows From Investing Activities:		
Principal payments on MBS	362,585	421,481
Purchases of MBS	(1,669,010)	(482,072)
Loss from equity interests in real estate in excess of distributions	-	100
Amortization of mortgage principal for real estate investments	(41)	(42)
Cash recognized upon consolidation of subsidiary	258	-
Depreciation and amortization	191	76
	(1,306,017)	(60,457)
Cash Flows From Financing Activities:		
Purchase of interest rate cap agreements	(2,395)	-
Increase in restricted cash	-	(2,261)
Net increase in borrowings under repurchase agreements	1,131,284	25,667
Net proceeds from issuances of common stock	103,770	-
Dividends paid	(15,923)	(14,952)
Proceeds from exercise of stock options	-	409
	1,216,736	8,863
Net decrease in cash and cash equivalents	(71,099)	(29,156)
Cash and cash equivalents at beginning of period	139,707	64,087
	\$ 68,608	\$ 34,931
Supplemental Cash Flow Information:		
Cash paid during the period for interest	\$ 12,606	\$ 15,721
Non-Cash Investing Disclosure:		
Consolidation of investment previously accounted for on the equity method	\$ 2,747	\$ -

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

MFA MORTGAGE INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(In Thousands)</i>	Three Months Ended March 31,	
	2004	2003
Net Income	\$ 21,905	\$ 15,344
Other Comprehensive Income:		
Unrealized holding gains /(losses) on MBS arising during the period, net	26,878	(1,447)
Unrealized holding losses on interest rate cap agreements arising during the period, net	(195)	(329)
Comprehensive Income	\$ 48,588	\$ 13,568

The accompanying notes are an integral part of the consolidated 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.

The Company has elected to be treated as a real estate investment trust ("REIT") for federal income tax purposes. In order to maintain its status as a REIT, the Company must comply with a number of requirements under federal tax law, including that it must distribute at least 90% of its annual taxable net income to its stockholders, subject to certain adjustments.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying interim unaudited financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") 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, 2003. In the opinion of management, all normal and recurring adjustments necessary to present fairly the financial condition at March 31, 2004 and results of operations for all periods presented have been made. The results of operations for the three-month period ended March 31, 2004 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 GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Statement of Financial Accounting Standards ("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 their estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Although the Company generally intends to hold 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 Company with the flexibility to sell its MBS in order to act on potential market opportunities, changes in economic conditions, to ensure future liquidity and to meet other general corporate purposes as they arise. (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 and hybrid MBS (collectively, "ARM-MBS") that are guaranteed as to principal and/or interest by an agency of the U.S. government, such as the Government National Mortgage Association ("Ginnie Mae"), or a federally chartered corporation, such as Fannie Mae or the Freddie Mac. Hybrid MBS have interest rates that are fixed for a specified period and, thereafter, generally reset annually. At March 31, 2004, 89.1% of the Company's MBS had interest rates scheduled to contractually reprice within three years or less. Contractual repricing does not consider the impact of prepayments.

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 life of such securities using the effective yield method, adjusted for actual prepayment activity.

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

(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 estimated fair value.

(d) Restricted Cash

Restricted cash represents cash held on deposit as collateral with certain repurchase agreement counterparties (i.e., lenders). 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 guaranteed as to principal and/or interest by an agency of the U.S. government, such as Ginnie Mae, or a federally chartered corporation, such as Fannie Mae and Freddie Mac (collectively, "Agency MBS"). Pursuant to its operating policies, the remainder of the Company's assets may consist of: (i) multi-family apartment properties; (ii) limited partnerships, real estate investment trusts or preferred stock of real estate related corporations; or (iii) other fixed-income instruments. As of March 31, 2004, 95.5% of the Company's assets consisted of Agency MBS and related receivables, 2.4% were MBS rated "AAA" by Standard and Poor's Corporation, a nationally recognized rating agency, and 1.2% were of cash and cash equivalents; combined these assets comprised 99.1% 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 estimated 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 of, the factors considered in determining whether and to what extent an other-than-temporary impairment exists: (i) the expected cash flow from the investment; (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 value when available. 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. At March 31, 2004 and December 31, 2003 the Company had no remaining assets on which an impairment charge had been made.

(f) Real Estate Investments

At March 31, 2004, the Company indirectly held a 100% ownership interest in a multi-family apartment property known as The Greenhouse and a 99.9% interest in a multi-family apartment property known as Lealand Place. Retirement Centers Corporation, as consolidated with its subsidiaries that directly hold these two properties, is consolidated with the Company. In addition, at March 31, 2004, the Company held a 99% limited partner interest in a limited partnership, which owns a multi-family apartment property known as Cameron at Hickory Grove ("Cameron"). Through December 31, 2003, the Company accounted for the investment in Cameron under the equity method. Commencing on January 1, 2004, the Company changed its accounting for such investment from the equity method to consolidating such entity, on a prospective basis, in accordance with FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46"), as amended. Each of these three properties were acquired through tax deferred exchanges under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"). (See Note 6.)

The properties, capital improvements and other assets held in connection with these investments are carried at cost, net of accumulated depreciation and amortization, not to exceed estimated fair value. Depreciation and amortization are computed using the straight-line method over the estimated 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. The Company intends to hold its remaining real estate investments as long-term investments.

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

(g) Repurchase Agreements

The Company finances the acquisition of its MBS through the use of repurchase agreements. Under these repurchase agreements, the Company sells securities to a lender and agrees to repurchase the same securities in the future for a price that is higher than the original sales price. The difference between the sale price that the Company receives and the repurchase price that the Company pays represents interest paid to the lender. Although structured as a sale and repurchase obligation, a repurchase agreement operates as a financing under which the Company pledges its securities as collateral to secure a loan which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. The Company retains beneficial ownership of the pledged collateral. 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, with the consent with the lender, the Company may renew such agreement at the then prevailing financing rate. These repurchase agreements may require the Company to pledge additional assets to the lender in the event the estimated fair value of the existing pledged collateral declines. Through March 31, 2004, 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.

Original terms to maturity of the Company's repurchase agreements generally range from one month to 36 months; however, the Company is not precluded from entering into repurchase agreements with longer maturities. Should a counterparty decide not to renew a repurchase 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 for the difference between the amount loaned to the Company and the estimated fair value of the collateral pledged to such lender. To reduce this risk, the Company enters into repurchase agreements only with institutions whose holding or parent company's long-term debt rating is "A" or better as determined by at least one nationally recognized rating agency (collectively, the "Rating Agencies"), where applicable. If this criterion is not met, the Company will not enter into repurchase agreements with a lender without the specific approval of the Company's Board of Directors (the "Board"). In the event an existing lender is downgraded below "A," the Company will seek the approval of the Board before entering into additional repurchase agreements with that lender. The Company generally seeks 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, 2004, the Company had repurchase agreements with 11 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 \$73.0 million. (See Note 7.)

(h) 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 shares of common stock and common equivalent shares outstanding during the period. For the diluted EPS calculation, common equivalent shares outstanding includes the weighted 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.)

(i) Comprehensive Income

The Company's consolidated statements of comprehensive income include all changes in the Company's stockholders' equity with the exception of additional investments by or dividends to stockholders. Such 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.)

(j) Federal Income Taxes

The Company has elected to be taxed as a REIT under the provisions of 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.

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

(k) Derivative Financial Instruments – Interest Rate Cap Agreements

The Company accounts for its interest rate cap agreements (“Cap Agreements” or “Caps”) in accordance with 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”), whereby such instruments are designated as hedges and carried at estimated fair value. In order for the Company’s Cap Agreements to qualify for hedge accounting, upon entering into the Cap Agreement, the Company must anticipate that the hedge will be highly “effective,” as defined by FAS 133, 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 the estimated fair value of the Cap Agreements are included in other comprehensive income. Upon commencement of the Cap Agreement active period, 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 an estimated fair value basis. Payments received in connection with the Cap Agreement, if any, are reported as a reduction to interest expense. 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 Cap Agreements is limited to the original price paid to enter into the Cap Agreement. In order to limit credit risk associated with Cap Agreements, the Company’s policy is to only purchase Cap Agreements from financial institutions rated “A” or better by at least one of the Rating Agencies at the time of purchase.

In order to continue to qualify for and to apply hedge accounting, Cap Agreements 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 it is expected that the Cap will 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 estimated fair value will be reflected in earnings.

At March 31, 2004, the Company had 16 Cap Agreements, which are derivative instruments as defined by FAS 133 and FAS 138, with an aggregate notional amount of \$610.0 million, on which there were unrealized losses of \$3.5 million. The Company utilizes Cap Agreements to manage interest rate risk and does not anticipate entering into derivative transactions for speculative or trading purposes. (See Note 5.)

(l) Equity Based Compensation

On January 1, 2003, the Company adopted FASB Statement No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure” (“FAS 148”). FAS 148, amended FAS No. 123, “Accounting for Stock-Based Compensation” (“FAS 123”), and provided 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 amended the disclosure requirements of FAS 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 adoption of FAS 148 did not have a significant impact on Company’s results of operations; however, the future effect of FAS 148 will be based on, among other things, the underlying terms of future grants of stock based compensation.

(m) Adoption of New Accounting Standards

In January 2003, the FASB issued FIN 46, which was revised in December 2003. FIN 46 requires consolidation by the primary beneficiary of all variable interest entities. FIN 46, as revised, became effective in January 2003 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 December 31, 2003. The implementation of FIN 46 did not have a material effect on the Company’s consolidated financial statements. (See Note 6.)

(n) Reclassifications

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

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

3. Related Parties

(a) Property Management

America First Properties Management Company L.L.C. (the "Property Manager"), a wholly owned subsidiary of America First Companies L.L.C. ("AFC"), provides property management services for the multi-family properties in which the Company holds investment interests. The Property Manager receives a management fee equal to a stated percentage of the gross receipts generated by these properties, which for 2003, ranged from 3.5% to 4.0% of gross receipts and, commencing on January 1, 2004, was 3% of gross receipts, increasing to a maximum of 4% of gross receipts upon attaining certain performance goals. The Company paid the Property Manager fees of approximately \$31,000 and \$98,000, respectively, for the quarters ended March 31, 2004 and 2003. The Property Manager also provided property management services to certain properties in which the Company previously held investment interests. Michael Yanney, the Company's former Chairman of the Board, who retired from the Board in March 2003, has been the Chairman of AFC since 1984 and Mr. Yanney and George H. Krauss, one of the Company's directors, beneficially own 57% and 17%, respectively, of AFC.

(b) Advisory Services

During the fourth quarter of 2003, the Company formed and became the sole stockholder of MFA Spartan, Inc., a Delaware corporation ("Spartan Inc."). Spartan Inc. then formed and, pursuant to an operating agreement dated November 6, 2003, became the sole member of MFA Spartan I, LLC, a Delaware limited liability company ("Spartan LLC"). On November 7, 2003, Spartan LLC entered into a sub-advisory agreement with America First Apartment Advisory Corporation ("AFAAC"), a Maryland corporation and the external advisor of America First Apartment Investors, Inc. ("AFAI"), pursuant to which Spartan LLC agreed, among other things, to provide sub-advisory services to AFAAC with respect to, and to assist AFAAC in connection with, AFAI's acquisition and disposition of MBS and the maintenance of AFAI's MBS portfolio. During the quarter ended March 31, 2004, the Company earned fees of \$24,000 related to the sub-advisory services rendered by Spartan LLC to AFAAC. George H. Krauss, one of the Company's directors, is a member of the board of directors of AFAI and beneficially owns 17% of AFC, which owns 100% of the voting stock of AFAAC.

4. Mortgage-Backed Securities

At March 31, 2004 and December 31, 2003, all of the Company's MBS were classified as available-for-sale and, as such, were carried at their estimated fair value as determined by an independent pricing source and investment banks that trade such securities. The following table presents the carrying value of the Company's MBS as of March 31, 2004 and December 31, 2003.

	March 31, 2004	December 31, 2003
<i>(In Thousands)</i>		
Fannie Mae Certificates	\$ 3,338,908	\$ 2,782,066
Ginnie Mae Certificates	1,065,276	344,363
Freddie Mac Certificates	1,154,622	1,109,941
Non-agency "AAA" rated	138,795	136,348
	\$ 5,697,601	\$ 4,372,718

At March 31, 2004 and December 31, 2003, the Company's portfolio of MBS consisted of pools of ARM-MBS with carrying values of approximately \$5.690 billion and \$4.366 billion respectively, and fixed-rate MBS with carrying values of approximately \$7.7 million and \$7.1 million, respectively.

Agency MBS: Although not rated, Agency MBS carry an implied "AAA" rating. Agency MBS are guaranteed as to principal and/or interest by an agency of the U.S. government, such as Ginnie Mae, or federally chartered corporation, such as Fannie Mae or Freddie Mac. The payment of principal and/or interest on Fannie Mae and Freddie Mac MBS is guaranteed by those respective agencies and the payment of principal and/or interest on Ginnie Mae MBS is backed by the full faith and credit of the U.S. government.

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

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

Agencies. "AAA" is the highest bond rating given by 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 or any federally chartered corporation.

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and fair value of the Company's MBS as of March 31, 2004 and December 31, 2003:

<i>(In Thousands)</i>	March 31, 2004	December 31, 2003
Principal balance	\$ 5,521,727	\$ 4,245,458
Principal payment receivable	32,556	40,170
	5,554,283	4,285,628
Unamortized premium	125,510	96,162
Unaccreted discount	(297)	(299)
Gross unrealized gains	26,000	10,882
Gross unrealized losses	(7,895)	(19,655)
	5,697,601	4,372,718
Carrying value/estimated fair value	\$ 5,697,601	\$ 4,372,718

The following table presents the gross unrealized losses and estimated fair value of the Company's MBS, aggregated by investment category and length of time that such individual securities have been in a continuous unrealized loss position, at March 31, 2004.

<i>(In Thousands)</i>	Less than 12 Months		12 Months or more		Total	
	Estimated Fair Value	Unrealized losses	Estimated Fair Value	Unrealized losses	Estimated Fair Value	Unrealized losses
Agency MBS:						
Fannie Mae	\$ 1,143,792	\$ 4,864	\$ -	\$ -	\$ 1,143,792	\$ 4,864
Ginnie Mae	40,768	89	-	-	40,768	89
Freddie Mac	444,701	1,894	-	-	444,701	1,894
Non-agency "AAA" rated MBS	110,548	770	28,247	278	138,795	1,048
	\$ 1,739,809	\$ 7,617	\$ 28,247	\$ 278	\$ 1,768,056	\$ 7,895
Total temporarily impaired securities	\$ 1,739,809	\$ 7,617	\$ 28,247	\$ 278	\$ 1,768,056	\$ 7,895

All of the Company's MBS are either Agency MBS, which have an implied "AAA" rating, or non-agency MBS that are rated "AAA," as such none of the unrealized losses are considered to be credit related. In addition, at March 31, 2004, the Company had one MBS with an amortized cost of \$28.5 million, which is expected to remain in the Company's portfolio, that had unrealized losses for 12 months or more. At March 31, 2004, this MBS had a gross unrealized loss of \$278,000.

The following table presents interest income and premium amortization on the Company's MBS portfolio for the three months ended March 31, 2004 and 2003:

<i>(In Thousands)</i>	Three Months Ended March 31,	
	2004	2003
Coupon interest on MBS	\$ 48,486	\$ 40,805
Premium amortization	(8,422)	(8,740)
Discount accretion	2	-
Interest income on MBS, net	\$ 40,066	\$ 32,065

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

5. Interest Rate Cap Agreements

The Company's Cap Agreements are designated as cash flow hedges against interest rate risk associated with the Company's existing and forecasted repurchase agreements. At March 31, 2004, the Company had 16 Cap Agreements with an aggregate notional amount of \$610.0 million purchased to hedge against increases in interest rates on \$610.0 million of its current and anticipated future 30-day term repurchase agreements. The Cap Agreements had an amortized cost of approximately \$5.6 million and an estimated fair value of \$2.1 million at March 31, 2004, resulting in a net unrealized loss of approximately \$3.5 million, which is included as a component of accumulated other comprehensive income. The Company incurred premium amortization expense on its Cap Agreements, which is included as component of interest expense on the Company's repurchase agreements that such Cap Agreements hedge, of \$405,000 and \$9,000 for the three months ended March 31, 2004 and 2003, respectively. 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 Cap Agreement counterparty. Through March 31, 2004, the Company had not received any payments from counterparties related to any of its Cap Agreements.

The Company enters into Cap Agreements with financial institutions whose holding or parent company's long-term debt rating is "A" or better, as determined at least one of the Rating Agencies. 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 remaining unamortized premium cost of the Cap Agreement.

The table below presents information about the Company's Cap Agreements at March 31, 2004:

	Weighted Average Active Period	Weighted Average LIBOR Strike Rate (1)	Notional Amount	Unamortized Premium	Estimated Fair Value/Carrying Value	Gross Unrealized (Loss)/Gain
<i>(Dollars in Thousands)</i>						
Months until active:						
Currently active	12 Months	4.85%	\$ 250,000	\$ 2,382	\$ 7	\$ (2,375)
Within six months	18 Months	3.25	60,000	825	81	(744)
Six to nine months	18 Months	3.75	50,000	199	156	(43)
Nine to 12 months	18 Months	3.75	100,000	635	645	10
12 to 24 months	18 Months	3.83	150,000	1,561	1,182	(379)
Weighted Average/Total	16 Months	4.17%	\$ 610,000	\$ 5,602	\$ 2,071	\$ (3,531)

(1) The 30-day LIBOR strike rate at which payments would become due to the Company under the terms of the Cap Agreement. At March 31, 2004, the 30-day LIBOR was 1.09%

6. Real Estate and Equity Interests in Real Estate

At March 31, 2004, the Company indirectly held investments representing ownership interests in the following properties: (i) a 100% ownership interest in The Greenhouse, a 127-unit multi-family apartment property located in Omaha, Nebraska; (ii) a 99.9% ownership interest in Lealand Place, a 192-unit apartment property located in Lawrenceville, Georgia; and (iii) a 99% limited partner interest in Owings Chase Limited Partnership, which owns Cameron, a 202-unit multi-family apartment complex in Charlotte, North Carolina.

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

Real estate investments, all of which were consolidated with the Company for the three months ended March 31, 2004, and equity interests in real estate at December 31, 2003 were as follows:

	March 31, 2004 (1)	December 31, 2003
<i>(In Thousands)</i>		
Real Estate:		
Land and buildings	\$ 30,500	\$ 21,486
Cash	509	283
Prepaid and other assets	459	324
Mortgages payable	(22,832) (1)	(16,161)
Accrued interest payable	(99)	(58)
Other payables	(252)	(210)
	\$ 8,285	\$ 5,664
Net real estate related assets		
	\$ –	\$ 2,802 (2)
Equity Interest in Real Estate		

(1) Each of the three properties serve as collateral for non-recourse mortgages (subject to customary non-recourse exceptions), which generally means that the lender's final source of prepayment in the event of default is foreclosure of the property securing such loan. At March 31, 2004, these mortgages had fixed interest rates ranging from 6.87% to 7.39% and maturities ranging from February 1, 2010 to February 1, 2011. In December 2000, the Company loaned Greenhouse Holdings, LLC (which owns The Greenhouse) \$437,000 to fund building renovations which remained outstanding at March 31, 2004, such loan is eliminated in consolidation.

(2) At December 31, 2003, equity interests in real estate was comprised of the Company's 99% limited partner interest in Owings Chase Limited Partnership, which owns Cameron, a 202-unit multi-family apartment property, located in Charlotte, North Carolina, such investment has been consolidated since January 1, 2004, on a prospective basis in accordance with the provisions of FIN 46.

The following table presents the summary results of operations for such real estate investments that were consolidated, for the three months ended March 31, 2004 and 2003:

	Three Months Ended March 31,	
	2004	2003
<i>(In Thousands)</i>		
Revenue from operations of real estate	\$ 1,002	\$ 427
Interest expense for mortgages on real estate	(426)	(203)
Other real estate operations expense	(709)	(347)
	\$ (133)	\$ (123)

The Company did not report any income from equity interest in real estate for the three months ended March 31, 2004, as all investments in subsidiaries have been consolidated with the Company since January 1, 2004 on a prospective basis. The Company reported income from equity interests in real estate of \$421,000, which included the results of operations for Owings Chase Limited Partnership, for the three months ended March 31, 2003.

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

7. Repurchase Agreements

The Company's repurchase agreements are collateralized by the Company's ARM-MBS and typically bear interest at rates that are LIBOR-based. At March 31, 2004, the Company had outstanding balances of \$5.156 billion under 300 repurchase agreements with a weighted average borrowing rate of 1.41% and a weighted average remaining contractual maturity of 7.8 months. At March 31, 2004, all of the Company's borrowings were fixed-rate term repurchase agreements with original maturities that range from one-to-36 months. At December 31, 2003, the Company had outstanding balances of \$4.024 billion under 258 repurchase agreements with a weighted average borrowing rate of 1.36%. At March 31, 2004 and December 31, 2003, the repurchase agreements had the following remaining contractual maturities:

<i>(In Thousands)</i>	<u>March 31, 2004</u>	<u>December 31, 2003</u>
Within 30 days	\$ 638,653	\$ 412,611
>30 days to 3 months	965,044	503,044
>3 months to 6 months	1,125,532	1,022,560
>6 months to 12 months	1,518,131	1,613,761
>12 months to 24 months	674,300	148,200
>24 months to 36 months	234,000	324,200
	<u>\$ 5,155,660</u>	<u>\$ 4,024,376</u>

8. Commitments and Contingencies

(a) Lease Commitments

At March 31, 2004, the Company had a lease through August 31, 2012 for its corporate headquarters, located at 350 Park Avenue, New York, New York. The lease provides for, among other things, annual rent of (i) \$338,000 through July 31 2005; (ii) \$348,000 from August 1, 2005 through November 30, 2008 and (iii) \$357,000 from December 1, 2008 through August 31, 2012. In addition, during the first quarter of 2004, the Company entered into a lease through December 2007 for its off-site back-up facilities, located in Rockville Centre, Nassau County, New York. This lease provides for, among other things, annual rent of \$23,000.

(b) Securities purchase commitments and other commitments

At March 31, 2004, there were no commitments to purchase any investment securities, enter into any repurchase agreements or any other significant commitments or contingencies.

9. Stockholders' Equity

(a) Dividends/Distributions

The following presents dividends declared by the Company from January 1, 2003 through March 31, 2004:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Dividend Per share</u>
2003			
March 13, 2003	March 28, 2003	April 30, 2003	\$ 0.280
May 22, 2003	June 30, 2003	July 31, 2003	0.280
September 10, 2003	September 30, 2003	October 31, 2003	0.280
December 17, 2003	December 30, 2003	January 30, 2004	0.250

On April 1, 2004, the Company declared its 2004 first quarter dividend, payable on April 30, 2004 to stockholders of record on April 12, 2004. (See Note 13a.)

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

(b) Shelf Registration

On September 25, 2001, the Company filed a shelf registration statement on Form S-3 with the SEC under the Securities Act of 1933, as amended, (the "Act"), with respect to an aggregate of \$300.0 million 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. At March 31, 2004, the Company had \$8.7 million remaining under this shelf registration statement.

On June 27, 2003, the Company filed a shelf registration statement on Form S-3 with the SEC under the Act with respect to an aggregate of \$500.0 million 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 July 8, 2003, the SEC declared this registration statement effective. At March 31, 2004, the Company had \$356.3 million available under this shelf registration statement.

On February 13, 2004, the Company issued 7,500,000 shares of common stock, par value \$0.01 per share ("Common Stock"), at \$10.13 per share in an underwritten public offering and, on February 18, 2004, an additional 1,125,000 shares of Common Stock following the full exercise of the underwriters' over-allotment option. The Company raised aggregate net proceeds of \$82.8 million from such public offering.

(c) DRSP

Beginning in September 2003, the Company's DRSP, which is designed to provide existing stockholders and new investors with a convenient and economical way to purchase shares of Common Stock (through the automatic reinvestment of dividends and/or optional monthly cash investments), became operational. On December 3, 2003, the Company filed a shelf registration statement on Form S-3 with the SEC for the purpose of registering additional Common Stock for sale through the DRSP. This registration statement was declared effective by the SEC on December 15, 2003 and, when combined with the unused portion of the Company's previous DRSP shelf registration statement, registered an aggregate of 10.0 million shares of Common Stock. During the three months ended March 31, 2004, the Company had issued 3,150,103 shares through the DRSP raising net proceeds of \$31.3 million. Since the inception of the DRSP, through March 31, 2004, the Company issued 6,484,222 shares raising net proceeds of \$62.5 million.

10. EPS Calculation

The following table presents the reconciliation between basic and diluted shares of Common Stock outstanding used in calculating basic and diluted EPS for the three months ended March 31, 2004 and 2003:

	Three Months Ended March 31,	
	2004	2003
<i>(In Thousands)</i>		
Weighted average shares outstanding - basic	68,910	46,316
Add effect of assumed shares issued under treasury stock method for stock options	91	62
	69,001	46,378

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

11. Accumulated Other Comprehensive Income/(Loss)

Accumulated other comprehensive income/(loss) at March 31, 2004 and December 31, 2003 was as follows:

	<u>March 31, 2004</u>	<u>December 31, 2003</u>
<i>(In Thousands)</i>		
Available-for-sale MBS:		
Unrealized gains	\$ 26,000	\$ 10,882
Unrealized losses	(7,895)	(19,655)
	<u>18,105</u>	<u>(8,773)</u>
Hedging Instruments:		
Unrealized depreciation on interest rate cap agreements	(3,531)	(3,336)
Accumulated other comprehensive income	<u>\$ 14,574</u>	<u>\$ (12,109)</u>

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 Common Stock. The 1997 Plan authorizes the Compensation Committee of the Board, or the entire Board if no such committee exists, to grant Incentive Stock Options ("ISOs"), as defined under section 422 of the Code, non-qualified stock options 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.

All DERs granted by the Company to date have or are scheduled to vest on the same basis as the underlying options. Dividends are paid on vested DERs only to the extent of ordinary income. Dividends paid on DERs granted to employees of the Company are charged to stockholders' equity when declared and dividends paid on DERs granted to directors that are not employees of the Company are charged to earnings when declared. During the three months ended March 31, 2004, the Company did not declare a dividend, therefore did not have any charge against stockholder's equity for the period then ended. For the three months ended March 31, 2003, the Company recorded a charge of \$126,000 to stockholders' equity associated with vested DERs held by employees and incurred an expense of \$4,000 associated with vested DERs held by directors. At March 31, 2004, the Company had 954,750 DERs outstanding, of which 578,063 were vested.

Pursuant to the Code, for stock options granted under the 1997 Plan and vesting in any one calendar year to qualify as ISOs for tax purposes, the market value of the Common Stock, as determined on the applicable date of grant, for which such stock options are exercisable shall not exceed \$100,000 during such calendar year.

MFA MORTGAGE INVESTMENTS, INC.
UNCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

During the three months ended March 31, 2004, the Company granted 50,000 stock options with a strike price of \$10.23, the market price on the date of grant, and an equivalent number related DERs. Such options and DERs vested 25% on date of grant and will vest 25% on each anniversary date thereafter. The Company uses the Black-Scholes valuation model to determine the option expense. The following represents the assumptions used to value the grant made during the three months ended March 31, 2004:

	Three-Months Ended March 31, 2004
Fair Value for Options Granted	\$ 4.49
Dividend Yield*	—
Volatility	34.47%
Risk-Free Interest Rate	3.77%
Assumed Forfeitures	—
Expected Life in years	7

**Dividend yield of zero is applied, as related DERs were granted.*

The Company recorded an expense of \$171,000 related to stock options, which had related DERs, during the three months ended March 31, 2004; no expense was realized for stock options during the three months ended March 31, 2003, as there were no unvested options outstanding nor any such grants made during the three months then ended.

(b) Employment Agreements

The Company has an employment agreement with each of its five senior officers, with varying terms that provide for, among other things, base salary and change-in-control provisions subject to certain events.

(c) Deferred Compensation Plans

On December 19, 2002, the Board adopted the MFA Mortgage Investments, Inc. 2003 Non-employee 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.

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. At March 31, 2004 and December 31, 2003, the Company had the following liability under the Deferred Plans, which included amounts deferred by participants, as well as the market value adjustments for the equivalent stock units:

<i>(In Thousands)</i>	March 31, 2004	December 31, 2003
Directors' deferred	\$ 138	\$ 130
Officers' deferred	133	—
	\$ 271	\$ 130

(d) Savings Plan

Effective October 1, 2002, the Company adopted a tax-qualified employee savings plan (the "Savings Plan"). Pursuant to Section 401(k) of the Code, eligible employees of the Company are able to make deferral contributions, subject to limitations under applicable law. Participant's accounts are self-directed and the Company bears all costs

MFA MORTGAGE INVESTMENTS, INC.
ONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

associated with administering the Savings Plan. The Company matches 100% of the first 3% of eligible compensation deferred by employees and 50% of the next 2%, with a maximum match of \$8,000. Substantially all of the Company's employees are eligible to participate in the Savings Plan. The Company has elected to operate the Savings Plan under applicable safe harbor provisions of the Code, whereby among other things, the Company must make contributions for all eligible employees regardless of whether or not such individuals make deferrals and all matches contributed by the Company immediately vest 100%. For the quarters ended March 31, 2004 and 2003, the Company incurred expenses for matching contributions pursuant to the Savings Plan of \$16,000 and \$12,000, respectively.

13. Subsequent Events

(a) Dividend Declared

On April 1, 2004, the Company declared a first quarter 2004 dividend of \$0.25 per share, as well as a special dividend of \$0.01 per share, on its Common Stock to stockholders of record on April 12, 2004. The total dividend of \$19.6 million will be paid on April 30, 2004.

(b) Preferred Equity Issued

On April 27, 2004, the Company issued 2,000,000 shares of 8.50% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock"), at \$25.00 per share in an underwritten public offering. The Series A Preferred Stock has a liquidation value of \$25.00 per share. In addition, the Series A Preferred Stock, which may be redeemed for cash at the Company's option on or after April 27, 2009, has no stated maturity or mandatory redemption and is not convertible into any other securities or property of the Company.

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, 2003.

GENERAL

MFA Mortgage Investments, Inc. is primarily engaged in the business of investing, on a leveraged basis, in ARM-MBS, which include adjustable-rate MBS and hybrid MBS. The Company's MBS portfolio consists primarily of Agency MBS, which are guaranteed as to principal and/or interest by Ginnie Mae, Fannie Mae or Freddie Mac and, to a lesser extent, "AAA" rated ARM-MBS. The Company's investment policies also permit the acquisition of multi-family apartment properties, investments in REIT securities and other securities; however, such investments do not comprise a significant amount of the Company's investments. 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's total assets were \$5.841 billion at March 31, 2004 and \$4.565 billion at December 31, 2003. As of March 31, 2004, 99.1% of the Company's assets consisted of Agency and "AAA" rated MBS, related MBS receivables and cash. At March 31, 2004, the Company had indirect interests in three multi-family apartment properties, containing a total of 521 rental units, located in Georgia, North Carolina and Nebraska. The Company currently expects to continue to hold its investments in these properties.

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 interest rates, borrowing costs and prepayment speeds, the behavior of which involves various risks and uncertainties. Prepayment speeds, as measured 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. For the Company, increases in interest rates, in general, over time cause: (i) prepayments on the MBS portfolio to slow, thereby reducing the cost of premium amortization; (ii) the cost of

borrowings to increase; (iii) coupons on the MBS assets to increase to higher interest rates and (iv) the value of the Company's MBS portfolio to decline. Conversely, decreases in interest rates, in general, over time cause: (i) prepayments on the MBS portfolio to increase, thereby increasing the cost of premium amortization; (ii) the cost of borrowings to decrease; (iii) coupons on the MBS assets to decrease to lower interest rates and (iv) the value of the Company's MBS portfolio to increase. In addition, borrowing costs are further affected by the Company's creditworthiness.

The weighted average CPR on the Company's portfolio for the first quarter of 2004 was 22.9% compared to 32.8% for the first quarter of 2003. The operating results of the Company depend, in large part, upon its ability to effectively manage its interest rate and prepayment risks while maintaining its status as a REIT. The Company also faces risks inherent in its other assets, comprised of interests in multi-family apartment properties and hedging instruments. Although these assets represent a small portion of the Company's total assets, less than 1.0% of the Company's total assets at March 31, 2004, such investments/instruments have the potential of causing a material impact on the Company's operating performance in future periods.

During the fourth quarter of 2003, the Company, through subsidiaries, began providing third-party advisory services as a sub-advisor to AFAI, a Maryland corporation, with respect to AFAI's acquisition and disposition of MBS and the maintenance of AFAI's MBS portfolio. The Company earned fees of \$24,000 related to such business during the three months ended March 31, 2004. The Company may grow its third-party advisory revenue over time.

The Company continues to explore alternative business strategies, alternative investments and other strategic initiatives to compliment the Company's core business strategy of investing, on a leveraged basis, in high quality ARM-MBS. No assurance, however, can be provided that any such strategic initiatives will or will not be implemented in the future.

RESULTS OF OPERATIONS

Quarter Ended March 31, 2004 to Quarter Ended March 31, 2003

Net income increased to \$21.9 million for the first quarter of 2004, resulting in basic and diluted earnings per share of \$0.32, compared to net income of \$15.3 million for the first quarter of 2003, or basic and diluted earnings per share of \$0.33.

During the first quarter of 2004, the net yield on interest-earning assets decreased to 3.22%, compared to 3.66% for the first quarter of 2003, while the cost of interest-bearing liabilities decreased to 1.46% from 1.91% for the respective periods.

For the quarter ended March 31, 2004, the Company's net interest income increased by \$6.9 million, to \$24.1 million, from \$17.2 million for the first quarter of 2003. This increase reflects growth in the Company's interest-earning assets, interest-bearing liabilities and equity, while the Company's net interest margin (i.e., net interest income divided by interest-earning assets) and interest rate spread for the comparative quarters were relatively unchanged. The growth in the Company's MBS portfolio and corresponding borrowings reflects the investment, on a leveraged basis, of additional equity capital raised during the latter part of 2003 and first quarter of 2004. Commencing in the second quarter of 2003 through March 31, 2004, the Company raised aggregate net proceeds of \$266.2 million through the issuance of its Common Stock in public offerings and through its DRSP.

Interest income for the first quarter of 2004 increased by \$8.0 million, or 25.0%, to \$40.2 million compared to \$32.2 million earned during the first quarter of 2003. This increase was comprised almost entirely of the increase in interest income on the Company's MBS portfolio, net of purchase premium amortization. The increase in interest income on MBS reflects the increase in the average investment in MBS (excluding changes in market values) of \$1.440 billion, or 41.5%, to \$4.909 billion for the first quarter of 2004 from \$3.468 billion for the first quarter of 2003. The increase in income on MBS due to the growth in the portfolio was partially offset by a decrease in the net yield earned on such portfolio. The net yield on the MBS portfolio declined to 3.27% for the first quarter of 2004, from 3.70% for the first quarter of 2003, comprised primarily of a decrease in the gross yield of 89 basis points to 4.14% for the first quarter of 2004 from 5.03% for the first quarter of 2003, which more than offset the positive impact of slower premium amortization. Premium amortization for the first quarter of 2004 reduced the net yield on the MBS portfolio by 72 basis points, compared to 108 basis points for the first quarter of 2003.

The following table presents the components of the net yield earned on the Company's MBS portfolio for the quarterly periods presented:

Quarter Ended	Stated Coupon	Cost of Premium	Net Premium Amortization	Cost of Delay for Principal Receivable	Net Yield
March 31, 2004	4.14%	(0.09)%	(0.72)%	(0.06)%	3.27%
December 31, 2003	4.24	(0.10)	(1.11)	(0.10)	2.93
September 30, 2003	4.45	(0.11)	(1.58)	(0.11)	2.65
June 30, 2003	4.72	(0.11)	(1.28)	(0.13)	3.20
March 31, 2003	5.03	(0.11)	(1.08)	(0.14)	3.70

The Company believes that the CPR in future periods will depend, in part, on changes in, and the level of, market interest rates across the yield curve. The Company expects the decrease in market interest rates experienced during the first quarter of 2004 will result in an increase in the CPR during the second quarter of 2004; however, the amount of such anticipated increase is uncertain. For the month of April 2004, the CPR experienced on the Company's MBS portfolio increased to 32.0%. The Company monitors purchase premiums paid for MBS to mitigate the impact of increases in prepayment activity. At March 31, 2004, the Company had net purchase premiums of \$125.2 million, or 2.27% of current principal balance, compared to \$95.9 million of net purchase premiums, or 2.26% of principal balance, at December 31, 2003.

The following table presents the CPR experienced on the Company's MBS portfolio, on an annualized basis, for the quarterly periods presented:

Quarter Ended	CPR
March 31, 2004	22.9%
December 31, 2003	31.9
September 30, 2003	41.2
June 30, 2003	37.1
March 31, 2003	32.8

Interest income from short-term cash investments (i.e., money market/sweep accounts) increased by \$44,000, or 35.8%, to \$167,000 for the first quarter of 2004 from \$123,000 for the first quarter of 2003. This increase reflects an increase in the average balance of cash investments, partially offset by a 26 basis point decrease in the yield on such investments to 0.78% for the first quarter of 2004, from 1.04% for the first quarter of 2003. The Company's average cash investments increased by \$38.1 million, or 78.8%, to \$86.4 million for the first quarter of 2004 compared to \$48.3 million for the first quarter of 2003. In general, as the MBS portfolio has continued to grow, the Company's average cash investments have increased, as cash provided from payments of principal and interest and additional equity capital raised are temporarily held in cash investments until reinvested in MBS or used for general corporate purposes.

The table below provides quarterly information regarding the Company's average balances, interest income, interest expense, yield on assets, cost of funds and net interest income for the quarterly periods presented.

For the Quarter Ended	Average Amortized Cost of MBS (1)	Interest Income on MBS	Average Cash and Cash Equivalents	Total Interest Income	Yield on Average Interest-Earning Assets	Average Balance of Repurchase Agreements	Interest Expense	Average Cost of Funds	Net Interest Income
<i>(Dollars in Thousands)</i>									
March 31, 2004	\$ 4,908,553	\$ 40,066	\$ 86,372	\$ 40,233	3.22%	\$ 4,458,174	\$ 16,141	1.46%	\$ 24,092
December 31, 2003	4,173,680	30,615	142,686	30,898	2.86	3,856,975	13,539	1.39	17,359
September 30, 2003	3,972,011	26,290	94,254	26,482	2.61	3,637,258	13,386	1.46	13,096
June 30, 2003	3,832,595	30,642	55,252	30,790	3.17	3,510,910	14,700	1.68	16,090
March 31, 2003	3,468,140	32,065	48,296	32,188	3.66	3,185,401	14,967	1.91	17,221

(1) Does not reflect unrealized gains and losses.

The Company's interest expense increased by \$1.2 million, or 7.8%, to \$16.1 million for the first quarter of 2004, compared to \$15.0 million for the first quarter of 2003. This increase reflects the impact of the significant increase in average borrowings under repurchase agreements, partially offset by the decline in the Company's cost of borrowings. The Company's increase in borrowings through repurchase agreements primarily reflects the leveraging of equity capital raised since the first quarter of 2003. The cost of such borrowings decreased to 1.46% for the first quarter of 2004, from 1.91% for the first quarter of 2003. The average balance of repurchase agreements increased to \$4.458 billion for the first quarter of 2004, compared to \$3.185 billion for the first quarter of 2003. Interest expense includes the amortization of premiums paid for the Company's active Cap Agreements, all of which are cash flow hedges. At the time Cap Agreements are purchased, they are designated as hedges against future increases in interest rates on the Company's borrowings under repurchase agreements. (See Notes 2(k) and 5 to the accompanying consolidated financial statements, included under Item 1.) Amortization of the purchase premium paid to enter into Cap Agreements is recognized as interest expense over the active period of such agreements, net of any payments received pursuant to such agreements. The Company recognized \$405,000 of interest expense related to the amortization of premiums on its active Cap Agreements for the first quarter of 2004, compared to \$9,000 for the first quarter of 2003. The Company did not receive any payments under its Cap Agreements during either the first quarter of 2004 or 2003, as LIBOR, which is the benchmark interest rate stipulated in the Cap Agreements, did not exceed the strike rate stipulated in any of the Company's active Cap Agreements during such periods. At March 31, 2004, the Company had unamortized premiums of \$5.6 million on 16 Cap Agreements with an aggregate notional amount of \$610.0 million, of which \$250.0 million were active.

For the quarter ended March 31, 2004, other income was primarily comprised of revenue from operations of real estate and miscellaneous other income. Other income increased to \$1.2 million for the first quarter of 2004, from \$327,000 for the first quarter of 2003. This increase in other income of \$837,000 includes additional revenue of \$575,000 recognized from real estate operations, primarily reflecting the consolidation of a real estate investment commencing on January 1, 2004, miscellaneous income of \$162,000 comprised of a non-recurring property tax abatement of \$138,000 and \$24,000 for sub-advisory services provided through a subsidiary of the Company. Upon implementing the provisions of FIN 46 on January 1, 2004, the Company changed its accounting for a real estate subsidiary from the equity method whereby such results were previously reported as a component of income from equity interest in real estate, to consolidating the results of such investment's operations with those of the Company. In addition, during the first three months of 2003, the Company held three other real estate investments accounted for under the equity method; such investments were sold during the second and third quarters of 2003. The Company does not anticipate that the operations of its three remaining real estate investments will have a significant impact on the future results of operations of the Company. (See Note 6 to the accompanying consolidated financial statements, under Item 1.)

During the first quarter of 2004, the Company reported operating and other expense of \$3.4 million, which included real estate operating expenses and mortgage interest of \$355,000 related to a real estate investment previously accounted for under the equity method. (See Note 6 to the accompanying consolidated financial statements, included under Item 1.) The Company's core operating expense, comprised of compensation and benefits and other general and administrative expense were \$2.2 million for the first quarter of 2004, or 0.15% of average assets, compared to \$1.7 million, or 0.18% of average assets for the first quarter of 2003. For the first quarter of 2004, employee compensation and benefits accounted for \$1.5 million, or 66.2% of core operating expenses, of which \$171,000 was a non-cash expense related to stock options and related DERs granted during 2003 and 50,000 options and related DERs granted during the first quarter of 2004. The remaining \$345,000 increase in compensation and benefits primarily reflects additional hires made to meet the needs of the Company as it continued to grow and contractual and other compensation increases, all of which are approved by the Compensation Committee of the Board. While the increase in employees has and will further increase the cost of compensation and benefits for 2004 and beyond, such hires have and are expected to continue, to a certain extent, result in the Company experiencing a reduction in third-party fees. Other general and administrative expenses which were \$749,000 for the first quarter of 2004, compared to \$703,000 for the first quarter of 2004, are comprised primarily of fees for professional services, including legal and accounting, corporate insurance, office rent and Board fees, certain of which are expected to increase in connection with complying with the provisions of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated there under, the amount of which are not expected to have a significant impact on the Company's results of operations.

During the first quarter of 2004, the Company entered into a non-cancelable lease through December 2007, for office space in Rockville Centre, Nassau County, New York, which calls for an annual rental fee of approximately \$23,000. This office, which the Company expects to have operational during the second quarter of 2004, will serve as the Company's off-site back-up facility. In connection with the Company's significant growth and increase in personnel during the past two years, the Company is nearing capacity at its corporate headquarters in Manhattan, New York and will begin to review options for obtaining additional space or relocating its headquarters to a larger office suite in Manhattan.

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 most significant uses of cash include purchases of MBS and dividend payments on its Common Stock. In addition, the Company also uses cash to fund operations, make purchases of hedging instruments and make such other investments that it considers appropriate.

Borrowings under repurchase agreements were \$5.156 billion at March 31, 2004 compared to \$4.024 billion at December 31, 2003. This increase in leverage was facilitated by the increase in the Company's equity capital as a result of the issuance of Common Stock during the first quarter of 2004 through a public offering and through the Company's DRSP. At March 31, 2004, repurchase agreements had a weighted average borrowing rate of 1.41%, on loan balances of between \$297,000 and \$139.9 million. The Company's repurchase agreements generally have original terms to maturity ranging from one to 36 months at inception of the loan and fixed interest rates that are typically based off of LIBOR. 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.

During the quarter ended March 31, 2004, principal payments on MBS generated cash of \$362.6 million and operations provided \$18.2 million in cash. As part of its core investing activities, during the first quarter of 2004, the Company acquired \$1.669 billion of MBS, all of which were either Agency MBS or "AAA" rated. On April 1, 2004, the Company declared dividends on its Common Stock totaling \$19.6 million, which, net of dividends of \$1.7 million to be reinvested in Common Stock through the Company's DRSP, will be paid on April 30, 2004 to stockholders of record on April 12, 2004.

Although the Company typically intends to hold its investments in MBS for investment purposes, sales may occur as part of the Company's overall asset/liability management in response to various market conditions and opportunities. As such, all of the Company's MBS are designated as available-for-sale. The Company did not sell any MBS during the quarter ended March 31, 2004.

During the quarter ended March 31, 2004, the Company issued approximately 8.6 million shares of Common Stock through a public offering raising net proceeds of \$82.8 million and issued approximately 3.2 million shares pursuant to its DRSP raising additional net proceeds of approximately \$31.3 million

At March 31, 2004, the Company had (i) \$356.3 million available under a \$500.0 million shelf registration statement on Form S-3 that was declared effective by the SEC on July 8, 2003 and (ii) \$8.7 million available under a \$300.0 million shelf registration statement on Form S-3 that was declared effective by the SEC on October 5, 2001. The Company may, as market conditions permit, issue shares of Common Stock and/or preferred stock pursuant to these registration statements. In addition, at March 31, 2004, the Company had approximately 5.6 million shares of Common Stock available for issuance under a shelf registration statement filed on Form S-3 that was declared effective by the SEC on December 15, 2003 for the purpose of issuing Common Stock for sale through the Company's DRSP.

To the extent the Company raises additional equity capital from future capital market transactions, the Company currently anticipates using the net proceeds for general corporate purposes, including, without limitation, the acquisition of additional MBS consistent with its investment policy and the repayment of its repurchase agreements. The Company may also consider acquiring additional interests in multi-family apartment properties and/or other investments consistent with its investment strategies and 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.

In order to reduce interest rate risk exposure, the Company purchases Cap Agreements, which are designated as cash-flow hedges against the Company's current and anticipated 30-day LIBOR based repurchase agreements. (See "Quantitative and Qualitative Disclosures About Market Risk".) During the first quarter of 2004, the Company purchased Cap Agreements with a notional amount of \$300.0 million at a cost of \$2.4 million. The Company's Cap Agreements, which had an aggregate notional amount of \$610.0 million at March 31, 2004, would generate future cash payments to the Company if interest rates were to increase beyond the rate specified in any of the individual Cap Agreements. To date, the Company has not received any payments related to its Cap Agreements, as the benchmark interest rate on each of the Company's active Cap Agreements has remained below such each Cap Agreements strike rate.

Under its repurchase agreements, the Company may be required to pledge additional assets to its repurchase agreement counterparties (i.e., lenders) in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral (a "margin call"), which may take the form of additional securities or cash. Specifically, margin calls result from a decline in the value of the Company's MBS securing its repurchase agreements, generally due to principal reduction of such MBS from scheduled amortization and prepayments on the mortgages securing such MBS and to changes in the estimated fair value of such MBS resulting from changes in market interest rates and other market factors. The Company's restricted cash balance represents cash held on deposit as collateral with lenders and, at the time a repurchase agreement rolls (i.e., matures), generally will be applied against the repurchase agreement, thereby reducing the borrowing. The Company believes it has adequate financial resources to meet its obligations as they come due, including margin calls, and to fund dividends declared as well as to actively pursue its investment strategies. Through March 31, 2004, 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. However, should prepayment speeds on the mortgages underlying the Company's MBS and/or market interest rates suddenly increase, margin calls on the Company's repurchase agreements could result, causing an adverse change in the Company's liquidity position.

OTHER MATTERS

The Company intends to conduct its business so as to maintain its exempt status under, and not to become regulated as an investment company for purposes of, the Investment Company Act. If the Company failed to maintain its exempt status under the Investment Company Act and became regulated as an investment company, the Company's ability to, among other things, use leverage would be substantially reduced and, as a result, the Company would be unable to conduct its business as described in the Company's annual report on Form 10-K for the year ended December 31, 2003. The Investment Company Act exempts entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate" ("Qualifying Interests"). Under the current interpretation of the staff of the SEC, in order to qualify for this exemption, the Company must maintain at least 55% of its assets directly in Qualifying Interests (the "55% Test"). MBS that do not represent all of the certificates issued (i.e., an undivided interest) with respect to the entire pool of mortgages (i.e., a whole pool) underlying such MBS may be treated as securities separate from such underlying mortgage loans and, thus, may not be considered Qualifying Interests for purposes of the 55% Test. Therefore, the Company's ownership of these types of MBS is limited by the provisions of the Investment Company Act. In meeting the 55% Test, the Company treats as Qualifying Interests those MBS issued with respect to an underlying pool as to which it owns all of the issued certificates. If the SEC or its staff adopts a contrary interpretation, the Company could be required to sell a substantial amount of its MBS under potentially adverse market conditions. Further, in order to insure that it at all times qualifies for this exemption from the Investment Company Act, the Company may be precluded from acquiring MBS whose yield is somewhat higher than the yield on MBS that could be otherwise purchased in a manner consistent with this exemption. Accordingly, the Company monitors its compliance with the 55% Test in order to maintain its exempt status under the Investment Company Act. As of March 31, 2004, the Company had determined that it was in and had maintained compliance with the 55% Test.

INFLATION

Substantially all of the Company's assets and liabilities are financial in nature. As a result, changes in interest rates and other factors impact the Company's performance far more than does inflation. The Company's financial statements are prepared in accordance with GAAP and its dividends are based upon net income as calculated for tax purposes; in each case, the Company's results of operations and reported assets, liabilities and equity 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 SEC or in press releases or other written or oral communications, statements which are not historical in nature, including those containing words such as “anticipate,” “estimate,” “should,” “expect,” “believe,” “intend” and similar expressions, are intended to identify “forward-looking statements” within the meaning of Section 27A of the Act and Section 21E of the Securities Exchange Act of 1934 (“1934 Act”) and, as such, may involve known 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: changes in the prepayment rates on the mortgage loans securing the Company’s MBS; changes in interest rates and the market value of the Company’s MBS; the Company’s ability to use borrowings to finance its assets; changes in government regulations affecting the Company’s business; the Company’s ability to maintain its qualification as a REIT for federal income tax purposes; and risks associated with investing in real estate, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including those described in reports that the Company files from time to time with the SEC, 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 of the date they are made and the Company does not undertake, and specifically disclaims, any obligation to update or revise any forward-looking statements to reflect events or circumstances occurring after the date of such 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 returns 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 ARM-MBS, which include hybrid MBS, which have interest rates that are fixed for a specified period and, thereafter, generally reset annually. As of March 31, 2004, applying a 15% CPR, the weighted average term to repricing or prepayment of the Company's ARM-MBS portfolio was 19 months and the weighted average term to repricing on repurchase agreements was 8 months, resulting in repricing gap of 11 months. The CPR is applied in order to reflect, to a certain extent, the prepayment characteristics inherent in the Company's interest-earning assets and interest-bearing liabilities. As of March 31, 2004, based on contractual terms (i.e., assuming no prepayments), the Company's ARM-MBS portfolio had a weighted average term to repricing of 22 months and repurchase agreements had a weighted average term to repricing of 8 months, resulting in a 14 month contractual repricing gap. The Company's debt obligations are generally repurchase agreements with terms of three years or less. Upon contractual maturity or an interest reset date, these borrowings are refinanced at then prevailing market rates.

The interest rates for most of the Company's adjustable-rate assets are primarily dependent on the LIBOR and one-year constant maturity treasury ("CMT") rate, while debt obligations, in the form of repurchase agreements, are generally dependent on LIBOR. While the LIBOR and CMT generally move together, there can be no assurance that such movements will be parallel, such that the magnitude of the movement of one index will match that of the other index. At March 31, 2004, the Company had 62.2% of its ARM-MBS portfolio repricing from the one-year CMT index, 34.8% repricing from the one-year LIBOR index, 2.3% repricing from COFI and 0.7% repricing from the 12-month CMT moving average.

The Company's adjustable-rate investment assets and borrowings (i.e., repurchase agreements) 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 borrowings may rise or fall more quickly in response to changes in market interest rates than does its earnings rate on the assets.

The mismatch between repricings or maturities within a time period is commonly referred to as the "gap" for that period. A positive gap (asset sensitive), where interest-rate sensitive assets exceed interest-rate sensitive liabilities, generally will result in the net interest margin increasing in a rising interest rate environment and decreasing in a falling interest rate environment. A negative gap (liability sensitive) will generally have the opposite results on the net interest margin. As discussed above, the gap analysis is prepared assuming a 15% CPR; however, actual prepayment speeds could vary significantly from the rate assumed in the table. The gap analysis does not reflect the constraints on the repricing of ARM-MBS in a given period resulting from periodic and lifetime cap features on these securities, or the behavior of various indexes applicable to the Company's assets and liabilities.

The gap methodology does not assess the relative sensitivity of assets and liabilities to changes in interest rates and also fails to account for interest rate caps and floors imbedded in the Company's MBS or include assets and liabilities that are not interest rate sensitive or the Company's hedging instruments. The following table presents the Company's interest rate risk using the gap methodology at March 31, 2004.

	At March 31, 2004					
	Less than 3 Months	Three Months to One Year	One Year to Two Years	Two Years to Year Three	Beyond Three Years	Total
Interest-Earning Assets:						
Adjustable Rate - MBS	\$ 481,268	\$ 2,068,885	\$ 1,262,081	\$ 1,504,568	\$ 373,142	\$ 5,689,944
Fixed-Rate - MBS	—	—	—	—	7,657	7,657
Cash	68,608	—	—	—	—	68,608
Total interest-earning assets	\$ 549,876	\$ 2,068,885	\$ 1,262,081	\$ 1,504,568	\$ 380,799	\$ 5,766,209
Interest-Bearing Liabilities:						
Repurchase agreements	\$ 1,603,697	\$ 2,643,663	\$ 674,300	\$ 234,000	\$ —	\$ 5,155,660
Mortgage loans	—	—	—	—	22,832	22,832
Total interest-bearing liabilities	\$ 1,603,697	\$ 2,643,663	\$ 674,300	\$ 234,000	\$ 22,832	\$ 5,178,492
Interest sensitivity gap	\$ (1,053,821)	\$ (574,778)	\$ 587,781	\$ 1,270,568	\$ 357,967	\$ 587,717
Cumulative interest sensitivity gap	\$ (1,053,821)	\$ (1,628,599)	\$ (1,040,818)	\$ 229,750	\$ 587,717	

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, which hedge against increases in interest rates on the Company's LIBOR-based repurchase agreements, are not considered in the 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 hedged liability. The Company's Cap Agreements, at the time of purchase, 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, 2004, the Company had \$610.0 million of notional amount of Cap Agreements, with a weighted average strike rate for the one-month LIBOR of 4.17%.

MARKET VALUE RISK

Substantially all of the Company's investment securities are designated as "available-for-sale" assets. As such, they are reflected at their estimated fair value, with the difference between amortized cost and estimated fair value reflected in accumulated other comprehensive income, a component of stockholders' equity. (See Note 11 to the accompanying consolidated financial statements, included under Item 1.) The estimated fair value of the Company's MBS fluctuate primarily due to changes in interest rates and other factors; however, given that these securities are guaranteed as to principal and/or interest by an agency of the U.S. government or a federally chartered corporation or are "AAA" rated, such fluctuations are generally not based on the creditworthiness of the mortgages securing such MBS. Generally, in a rising interest rate environment, the estimated fair value of the Company's MBS would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of such MBS would be expected to increase. If the estimated fair value of the Company's MBS decreases, the Company may receive margin calls from its repurchase agreement counterparties due to such a decline in the estimated fair value of the MBS collateralizing repurchase agreements.

LIQUIDITY RISK

The primary liquidity risk for the Company arises from financing long-maturity assets, which have interim and lifetime interest rate adjustment caps, with shorter-term borrowings in the form of repurchase agreements. Although the interest rate adjustments of these assets and liabilities are matched within the guidelines established by the Company's operating policies, maturities are not required to be, nor are they matched.

The Company's assets which are pledged to secure repurchase agreements are high-quality, liquid assets. As a result, the Company has not had difficulty rolling over (i.e., renewing) these agreements as they mature. However, there can be no assurances that the Company will always be able to roll over its repurchase agreements. At March 31, 2004, the Company had cash and cash equivalents of \$68.6 million available to meet margin calls on its repurchase agreements and for other corporate purposes. However, should prepayment speeds on the mortgages underlying the Company's MBS and/or market interest rates suddenly increase, margin calls on the Company's repurchase agreements could result, causing an adverse change in the Company's liquidity position.

PREPAYMENT AND REINVESTMENT RISK

As the Company receives repayments of principal on its MBS, premiums paid on such securities are amortized against interest income and discounts on MBS are accreted to interest income. Premiums arise when the Company acquires a MBS at a price in excess of the principal balance of the mortgages securing such MBS or the par value of such MBS if purchased at the original issue. Conversely, discounts arise when the Company acquires a MBS at a price below the principal balance of the mortgages securing such MBS, or the par value of such MBS, if purchased at the original issue. For financial accounting purposes, interest income is accrued based on the outstanding principal balance of the investment securities and their contractual terms. Purchase premiums on the Company's investment securities, currently comprised of MBS, are amortized against interest income over the lives of the securities using the effective yield method, adjusted for actual prepayment activity. In general, an increase in the prepayment rate, as measure by the CPR, will accelerate the amortization of purchase premiums, thereby reducing the yield/interest income earned on such assets.

For tax accounting purposes, the purchase premiums are amortized based on the constant effective yield at the purchase date. Therefore, on a tax basis, amortization of premiums will differ from those reported for financial purposes under GAAP. At March 31, 2004, the gross unamortized premium for ARM-MBS for financial accounting purposes was \$125.5 million (2.26% of the principal balance of MBS) while the gross unamortized premium for federal tax purposes was estimated at \$120.0 million.

In general, the Company believes that 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 timely 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 definitive Proxy Statement dated November 12, 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 Articles of Amendment to the Amended and Restated Articles of Incorporation of the Registrant, dated August 6, 2002 (incorporated herein by reference to Form 8-K, dated August 13, 2002, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

3.3 Articles of Amendment to the Amended and Restated Articles of Incorporation of the Registrant, dated August 16, 2002 (incorporated herein by reference to Exhibit 3.3 of the Form 10-Q, for the quarter ended September 30, 2002, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

3.4 Articles Supplementary of the Registrant, dated April 22, 2004, designating the Registrant’s 8.50% Series A Cumulative Redeemable Preferred Stock (incorporated herein by reference to Exhibit 3.4 of the Form 8-A, dated April 23, 2004, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

3.5 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 Registrant (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)).

4.2 Specimen of Stock Certificate representing the 8.50% Series A Cumulative Redeemable Preferred Stock of the Registrant (incorporated herein by reference to Exhibit 4 of the Form 8-A, dated April 23, 2004, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

10.1 Employment Agreement of Stewart Zimmerman, dated September 25, 2003 (incorporated herein by reference to Exhibit 10.1 of the Form 10-Q, dated September 30, 2003, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

10.2 Employment Agreement of William S. Gorin, dated September 25, 2003 (incorporated herein by reference to Exhibit 10.2 of the Form 10-Q, dated September 30, 2003, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

10.3 Employment Agreement of Ronald A. Freyberg, dated March 30, 2004.

10.4 Employment Agreement of Teresa D. Covello, dated November 1, 2003 (incorporated herein by reference to Exhibit 10.4 of the Form 10-K, dated December 31, 2003, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

10.5 Employment Agreement of Timothy W. Korth II, dated August 1, 2003 (incorporated herein by reference to the Form 8-K, dated August 7, 2003, filed by the Registrant pursuant to the 1934 Act (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)).

31.1 Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

- (i) On February 5, 2004, the Registrant filed a Current Report on Form 8-K under Items 7, 9 and 12 and attaching the Registrant's press release, dated February 5, 2004, which announced the Registrant's results for the fourth quarter and year ended December 31, 2003;
- (ii) On February 11, 2004, the Registrant filed a Current Report on Form 8-K under Items 5 and 7 announcing the Company's public offering of Common Stock, which was completed on February 18, 2004, and attaching the related underwriting agreement, dated February 10, 2004; and
- (iii) On February 13, 2004, the Registrant filed a Current Report on Form 8-K under Items 7 and 9 announcing tax information regarding the Registrant's dividend distributions for the year ended December 31, 2003 and attaching the related press release, dated February 13, 2004.

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 27, 2004

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 (Principal Financial Officer)

By: /s/ Teresa D. Covello
Teresa D. Covello
Senior Vice President
Chief Accounting Officer and Treasurer (Principal
Accounting Officer)

**AMENDED AND RESTATED
EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Agreement") is entered into as of the 30th day of March, 2004, by and between MFA MORTGAGE INVESTMENTS, INC., a Maryland corporation ("MFA"), and RONALD A. FREYDBERG, an individual residing at 3 Red Roof Drive, Rye Brook, New York 10573 (the "Executive").

WITNESSETH:

WHEREAS, MFA and the Executive entered into an employment agreement, effective as of August 1, 2002 (the "Employment Agreement");

WHEREAS, MFA and the Executive desire to extend the period of employment set forth in the Employment Agreement to July 31, 2006 on the same terms and conditions as are otherwise set forth in the Employment Agreement; and

WHEREAS, the Executive wishes to continue serving MFA and MFA wishes to secure the continued exclusive services of the Executive under the terms and conditions described below.

NOW THEREFORE, in consideration of the foregoing premises and the mutual agreements herein contained, the parties hereto agree to amend and restate the Employment Agreement in its entirety to read as follows:

1. Term of Employment.

(a) MFA hereby employs the Executive, and the Executive hereby accepts employment with MFA, in the positions and with the duties and responsibilities as set forth in Paragraph 2 below for the Term of Employment, subject to the terms and conditions of this Agreement.

(b) The Term of Employment under this Agreement shall include the Initial Term and each Renewal Term. The Initial Term commenced as of August 1, 2002 and shall continue until July 31, 2006. The Term of Employment shall automatically renew for a one-year period (each such renewal, a "Renewal Term") at the end of the Initial Term and each Renewal Term, unless either party shall give notice to the other not less than six months prior to the end of the Initial Term or any Renewal Term, as the case may be, of his or its intent not to renew such Initial Term or Renewal Term, as the case may be.

2. Position; Duties and Responsibilities.

(a) During the Term of Employment, the Executive shall be employed as Executive Vice President of MFA, reporting to the President and Chief Executive Officer of MFA (the "CEO"), with such duties and day-to-day management responsibilities as are customarily performed by persons holding such offices at similarly situated mortgage REITs and such other duties as may be mutually agreed upon between the Executive and the CEO.

(b) During the Term of Employment, the Executive shall, without additional compensation, also (i) serve on the board of directors of, serve as an officer of, and/or perform such executive and consulting services for, or on behalf of, such subsidiaries or affiliates of MFA as the CEO and/or the Board of Directors of MFA (the "Board of Directors") may, from time to time, request. MFA and such subsidiaries and affiliates are hereinafter referred to, collectively, as the "Company." For purposes of this Agreement, the term "affiliate" shall have the meaning ascribed thereto in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Act").

(c) During the Term of Employment, the Executive shall serve MFA faithfully, diligently and to the best of his ability and shall devote substantially all of his time and efforts to his employment and the performance of his duties under this Agreement. Nothing herein shall preclude the Executive from engaging in charitable and community affairs and managing his personal financial and legal affairs, so long as such activities do not materially interfere with his carrying out his duties and responsibilities under this Agreement.

3. Compensation.

(a) Base Salary. During the Term of Employment, the Executive shall be entitled to receive an annualized base salary (the "Base Salary") equal to the product of .20% times MFA's Tangible Net Worth; provided, that the maximum aggregate amount of Base Salary payable to the Executive in any 12-month period from August 1st of one year through July 31st of the next year shall not exceed \$750,000. The Base Salary shall be calculated semi-annually on June 30 and December 31 of each year (each, a "Calculation Period") and shall be paid during the subsequent six-month period commencing August 1 and February 1, respectively (each, a "Payment Period"), in accordance with MFA's normal payroll practices. For example, if the Base Salary determined as of June 30, 2002 is \$688,000, approximately one-twelfth of that amount will be paid to the Executive each month during the Payment Period commencing on August 1, 2002 and ending on January 31, 2003, and payments of the Base Salary for the Payment Period commencing on February 1, 2003 and ending on July 31, 2003 will be based on the calculation of Tangible Net Worth as of December 31, 2002. If MFA's annualized Return on Equity for any Calculation Period shall be less than 10%, then the Base Salary for the next following Payment Period shall be reduced (i) to the product of .19% times MFA's Tangible Net Worth if the annualized Return on Equity is less than 10% but equal to or greater than 5%, and (ii) to the product of .18% times MFA's Tangible Net Worth if the annualized Return on Equity is less than 5%. An illustration of the method of calculating the Base Salary and Return on Equity is provided in Schedule I hereto.

(b) Performance Bonus. The Executive shall be eligible to receive an annual performance bonus in such amount, in such manner and at such time as shall be determined by the Compensation Committee of the Board of Directors or the Board of Directors, as the case may be.

(c) Long-Term Incentive Program. The Executive shall be eligible to receive such stock option, restricted stock or dividend equivalent rights grants as the Compensation Committee of the Board of Directors or the Board of Directors, as the case may be, shall deem appropriate.

(d) Annual Review. The Compensation Committee of the Board of Directors or the Board of Directors, as the case may be, shall, at least annually, review the Executive's entire compensation package to determine whether it continues to meet MFA's compensation objectives.

4. Employee Benefit Programs and Fringe Benefits.

During the Term of Employment, the Executive shall be entitled to five weeks of vacation each calendar year and to participate in all executive incentive and employee benefit programs of MFA now or hereafter made available to MFA's senior executives or salaried employees generally, as such programs may be in effect from time to time. MFA shall reimburse the Executive for any and all necessary, customary and usual business expenses, properly receipted in accordance with MFA's policies, incurred by Executive in connection with his employment.

5. Termination of Employment.

(a) Termination Due to Death or Disability. If the Executive's employment is terminated during the Term of Employment by reason of the Executive's death or Disability, the Executive's Term of Employment shall terminate automatically without further obligations to the Executive, his legal representative or his estate, as the case may be, under this Agreement except for (i) any compensation earned but not yet paid, including and without limitation, any amount of Base Salary accrued or earned but unpaid and any other payments payable to the Executive pursuant to Paragraph 5(e) below, which amounts shall be promptly paid in a lump sum to the Executive, his legal representative or his estate, as the case may be, and (ii) continued payment on a monthly basis of the Executive's then current Base Salary, as calculated pursuant to Paragraph 3(a) above, for a period of one year following the date of such termination, which shall be paid to the Executive, his legal representative or his estate, as the case may be. In the event of such termination due to his Disability, Executive's health insurance coverage shall be continued at MFA's expense for the duration of such Disability; provided, that, if such coverage cannot be provided under MFA's health insurance policy for the duration of such Disability, such coverage or the cost of comparable coverage shall be provided by MFA until the Executive's attainment of age 65 or such later date through which coverage is permissible under MFA's health insurance policy.

(b) Termination Without Cause or for Good Reason. In the event the Executive's employment is terminated by MFA without Cause including by notice of MFA's determination not to renew the Initial Term or any Renewal Term pursuant to Paragraph 1(b)) or by the Executive for Good Reason, unless any such termination is preceded by the Executive's giving notice of his determination not to renew the Initial Term or any Renewal Term pursuant to Paragraph 1(b), the Executive shall be entitled to both continued payments of his then current Base Salary and continued health insurance coverage at MFA's expense, until the later to occur of (i) the expiration of the Term of Employment, or (ii) the first anniversary of such termination of employment, such Base Salary being payable at the same time such amounts would have been payable to the Executive had his employment not terminated.

(c) Termination by MFA for Cause or Voluntary Termination by the Executive. In the event the Executive's employment is terminated by MFA for Cause, or is terminated by the Executive on his own initiative for other than a Good Reason (including pursuant to Paragraph 1(b)), the Executive shall be entitled to any compensation earned but not yet paid, including and without limitation, any amount of Base Salary accrued or earned but unpaid and any other payments payable to the Executive pursuant to Paragraph 5(e) below, as of the date of termination.

(d) Termination Related to Change in Control. In the event of (1) the termination of the Executive's employment by MFA without Cause that occurs both within two months before and in anticipation of a Change in Control, (2) the resignation of his employment by the Executive for any reason within three months following a Change in Control, or (3) the termination of the Executive's employment by MFA other than for Cause or the Employee's resignation of his employment for Good Reason within twelve months following a Change in Control,

- (i) MFA shall pay to Executive in a lump sum, within 30 days following the termination of employment, an amount equal to 300% of the sum of (a) the Executive's then current Base Salary and (b) the Executive's bonus for the immediately preceding year;
- (ii) all of the Executive's outstanding stock options shall immediately vest in full and become exercisable for a period of 90 days from the date of termination but in no event beyond the date on which any such option would have expired had the Executive's employment not terminated; and
- (iii) the Executive shall continue to participate in all health, life insurance, retirement and other benefit programs at MFA's expense for the balance of the Term of Employment, to the same extent as though the Executive's employment had not terminated.

The Executive, in his sole and absolute discretion, may elect to reduce any such payment in order to avoid imposition of the excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended.

(e) Other Payments. Upon the termination of the Executive's employment, in addition to the amounts payable under any Paragraph above, the Executive shall be entitled to receive the following:

- (i) any annual bonus earned during one or more preceding years but not paid;
- (ii) any vested deferred compensation (including any interest accrued on such deferred amounts);
- (iii) reimbursement for reasonable business expenses incurred but not yet reimbursed by MFA; and
- (iv) any other benefits to which the Executive or his legal representative may be entitled under applicable plans and programs of MFA, as provided in Paragraph 4 above.

(f) No Mitigation; No Offset. In the event of any termination of the Executive's employment under this Agreement, he shall be under no obligation to seek other employment or otherwise in any way to mitigate the amount of any payment provided for in this Paragraph 5, and there shall be no offset against amounts due him under this Agreement on account of any remuneration attributable to any subsequent employment that he may obtain.

6. Definitions.

For purposes of this Agreement, the following terms shall be defined as set forth below:

(a) Cause. "Cause" shall mean the Executive's (i) conviction, or entry of a guilty plea or a plea of nolo contendere with respect to, a felony, a crime of moral turpitude or any crime committed against the Company, (ii) engagement in willful misconduct, willful or gross negligence, or fraud, embezzlement or misappropriation relating to significant amounts, in each case in connection with the performance of his duties under this Agreement; (iii) failure to adhere to the lawful directions of the CEO and/or the Board of Directors that are reasonably consistent with his duties and position provided for herein; (iv) breach in any material respect of any of the provisions of Paragraph 7 of this Agreement resulting in material and demonstrable economic injury to MFA; (v) chronic or persistent substance abuse that materially and adversely affects his performance of his duties under this Agreement; or (vi) breach in any material respect of the terms and provisions of this Agreement resulting in material and demonstrable economic injury to MFA. Notwithstanding the foregoing, (i) the Executive shall be given written notice of any action or failure to act that is alleged to constitute Cause (a "Default"), and an opportunity for 20 business days from the date of such notice in which to cure such Default, such period to be subject to extension in the discretion of the CEO or, in his absence, the Board of Directors; and (ii) regardless of whether the Executive is able to cure any Default, the Executive shall not be deemed to have been terminated for Cause without (x) reasonable prior written notice to the Executive setting forth the reasons for the decision to terminate the Executive for Cause, (y) an opportunity for the Executive, together with his counsel, to be heard by the CEO or, in his absence, the Board of Directors, and (z) delivery to the Executive of a notice of termination approved by said CEO or, in his absence, the Board of Directors, stating his or its good faith opinion that the Executive has engaged in actions or conduct described in the preceding sentence, which notice specifies the particulars of such action or conduct in reasonable detail; provided, however, MFA may suspend the Executive with pay until such time as his right to appear before the CEO or the Board of Directors, as the case may be, has been exercised, so long as such appearance is within two (2) weeks of the date of suspension.

(b) Change in Control. A "Change in Control" shall mean the occurrence of any one of the following events:

- (i) any "person," as such term is used in Sections 13(d) and 14(d) of the Act (other than MFA, any of its affiliates or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of MFA or any of its affiliates) together with all affiliates and "associates" (as such term is defined in Rule 12b-2 under the Act) of such person, shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of MFA representing 30% or more of either (A) the combined voting power of MFA's then outstanding securities having the right to vote in an election of the Board of Directors ("voting securities") or (B) the then outstanding shares of common stock of MFA ("Shares") (in either such case other than as a result of an acquisition of securities directly from MFA); or
- (ii) persons who, as of the effective date of MFA's Second Amended and Restated 1997 Stock Option Plan, constitute MFA's Board of Directors (the "Incumbent Directors") cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board of Directors, provided that any person becoming a Director of MFA subsequent to the effective date whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors shall, for purposes of the Plan, be considered an Incumbent Director; or

- (iii) there shall occur (A) any consolidation or merger of MFA or any subsidiary where the shareholders of MFA, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate 50% or more of the voting securities of the corporation issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any), (B) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of MFA or (C) any plan or proposal for the liquidation or dissolution of MFA.

Notwithstanding the foregoing, a "Change in Control" shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by MFA which, by reducing the number of Shares or other voting securities outstanding, increases (x) the proportionate number of Shares beneficially owned by any person to 30% or more of the Shares then outstanding or (y) the proportionate voting power represented by the voting securities beneficially owned by any person to 30% or more of the combined voting power of all then outstanding voting securities; provided, however, that, if any person referred to in clause (x) or (y) of this sentence shall thereafter become the beneficial owner of any additional Shares or other voting securities (other than pursuant to a stock split, stock dividend, or similar transaction), then a "Change in Control" shall be deemed to have occurred for purposes of this Paragraph 6(b).

(c) Disability. "Disability" shall mean the Executive's inability for a period of six consecutive months, to render substantially the services provided for in this Agreement by reason of mental or physical disability, whether resulting from illness, accident or otherwise, other than by reason of chronic or persistent abuse of any substance (such as narcotics or alcohol).

(d) Good Reason. "Good Reason" shall mean:

- (i) a material diminution in the Executive's title, duties or responsibilities;
- (ii) relocation of the Executive's place of employment without his consent outside the New York City metropolitan area;
- (iii) the failure of MFA to pay within thirty (30) business days any payment due from MFA;
- (iv) the failure of MFA to pay within a reasonable period after the date when amounts are required to be paid to the Executive under any benefit programs or plans; or
- (v) the failure by MFA to honor any of its material obligations herein.

(e) Non Cash Items. "Non Cash Items" shall mean depreciation, non cash merger expenses, gains/losses on asset sales, and impairment charges.

(f) Return on Equity. "Return on Equity" shall mean six months GAAP net income plus (minus) certain Non Cash Items divided by average Tangible Net Worth, annualized.

(g) Tangible Net Worth. "Tangible Net Worth" shall mean stockholder equity less goodwill.

7. Covenant Not To Compete.

The Executive will not, without the prior written consent of MFA, manage, operate, control or be connected as a stockholder (other than as a holder of shares publicly traded on a stock exchange or the NASDAQ National Market System, provided that the Executive shall not own more than five percent of the outstanding shares of any publicly traded company) or partner with, or as an officer, director, employee or consultant of, any mortgage REIT for a period of one year following termination of his employment with MFA. During such one-year period, the Executive shall not solicit any employees of the Company to work for any mortgage REIT. Except as otherwise

required by law, the Executive shall keep confidential all materials, files, reports, correspondence, records and other documents (collectively the "Company Materials") used, prepared or made available to him in connection with his employment by MFA and which have not otherwise been made available to the public, and upon termination of his employment shall return such Company Materials to MFA. The Executive acknowledges that MFA may seek injunctive relief or other specific enforcement of its rights under this Paragraph.

8. Indemnification.

MFA shall indemnify the Executive to the fullest extent permitted by Maryland law in effect as of the date hereof in connection with the Executive's duties with the Company, against all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees, judgments, fines, penalties, ERISA excise taxes and amounts paid in settlement) actually and reasonably incurred by the Executive in connection with an action, suit or proceeding.

9. Assignability; Binding Nature.

This Agreement shall inure to the benefit of MFA and the Executive and their respective successors, heirs (in the case of the Executive) and assigns. No rights or obligations of MFA under this Agreement may be assigned or transferred by MFA except that any such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which MFA is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of MFA, provided that the assignee or transferee is the successor to all or substantially all of the assets of MFA and such assignee or transferee assumes the liabilities, obligations and duties of MFA, as contained in this Agreement, either contractually or as a matter of law. This Agreement shall not be assignable by the Executive.

10. Representation.

MFA represents and warrants that it is fully authorized and empowered to enter into this Agreement and that its entering into this Agreement and the performance of its obligations under this Agreement will not violate any agreement between MFA and any other person, firm or organization or any law or governmental regulation.

11. Entire Agreement.

This Agreement contains the entire agreement between MFA and the Executive concerning the subject matter hereof and supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between them with respect thereto.

12. Amendment or Waiver.

This Agreement cannot be changed, modified or amended without the consent in writing of both the Executive and MFA. No waiver by either MFA or the Executive at any time of any breach by the other party of any condition or provision of this Agreement shall be deemed a waiver of a similar or dissimilar condition or provision at the same or at any prior or subsequent time. Any waiver must be in writing and signed by the Executive or an authorized officer of MFA, as the case may be.

13. Severability.

In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect to the fullest extent permitted by law.

14. Reasonableness.

To the extent that any provision or portion of this Agreement is determined to be unenforceable by a court of law or equity, that provision or portion of this Agreement shall nevertheless be enforceable to the extent that such court determines is reasonable.

15. Survivorship.

The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement to the extent necessary to the intended preservation of such rights and obligations.

16. Governing Law.

This Agreement and all rights thereunder, and any controversies or disputes arising with respect thereto, shall be governed by and construed and interpreted in accordance with the laws of the State of New York, applicable to agreements made and to be performed entirely within such State, without regard to conflict of laws provisions thereof that would apply the law of any other jurisdiction.

17. Notices.

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

18. Headings.

The headings of the paragraphs contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

19. Counterparts.

This Agreement may be executed in two or more counterparts.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

MFA MORTGAGE INVESTMENTS, INC.

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

/s/ Ronald A. Freyberg
Ronald A. Freyberg

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 report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2004

/s/ Stewart Zimmerman

Name: Stewart Zimmerman

Title: Chief Executive Officer and President

CERTIFICATIONS

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 report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonable likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 27, 2004

/s/ William S. Gorin

Name: William S. Gorin

Title: Executive Vice President and Chief Financial Officer

**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, 2004 (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
Stewart Zimmerman

Dated: April 27, 2004

Title: Chief Executive Officer and President

**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, 2004 (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 27, 2004