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

FORM 10-Q

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

For the quarterly period ended September 30, 2004

OR

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

For the transition period from ______________ to ______________

Commission File Number: 1-13991

MFA MORTGAGE INVESTMENTS, INC.

(Exact name of registrant as specified in its charter)

Maryland	**13-3974868**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
350 Park Avenue, 21st Floor, New York, New York	**10022**
(Address of principal executive offices)	(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 þ No o

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 þ No o

80,636,239 shares of the registrant's common stock, $0.01 par value ("Common Stock"), were outstanding as of October 29, 2004.

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Financial Information

Item 1. Financial Statements

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Other Information

Item 1. Legal Proceedings

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Signatures

10.9 Form of Incentive Stock Option Award Agreement relating to the Registrant's 2004 Equity Compensation Plan.

10.10 Form of Non-Qualified Stock Option Award Agreement relating to the Registrant's 2004 Equity Compensation Plan.

10.11 Form of Restricted Stock Award Agreement relating to the Registrant's 2004 Equity Compensation Plan.

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)	September 30, 2004	December 31, 2003
	(Unaudited)	
Assets:		
Mortgage-backed securities ("MBS") (Note 4)	$ 6,103,930	$ 4,372,718
Cash and cash equivalents	45,213	139,707
Accrued interest receivable	26,258	18,809
Interest rate caps ("Caps" or "Cap Agreements") (Note 5)	1,391	276
Equity interests in real estate investments (Note 6)	–	2,802
Real estate held for investment (Note 6)	30,210	21,486
Goodwill	7,189	7,189
Receivable under Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan ("DRSPP") (Note 9)	3,393	705
Prepaid and other assets	1,491	1,238
	$ 6,219,075	$ 4,564,930
Liabilities:		
Repurchase agreements (Note 7)	$ 5,484,029	$ 4,024,376
Accrued interest payable	19,742	7,239
Mortgages payable on real estate	22,734	16,161
Interest rate swaps ("Swaps") (Note 5)	1,066	–
Dividends payable	–	15,923
MBS purchase payable	–	15,010
Accrued expenses and other liabilities	2,833	1,263
	5,530,404	4,079,972
Commitments and contingencies (Note 8)	–	–
Stockholders' Equity:		
Preferred stock, $.01 par value; series A 8.50% cumulative redeemable; 5,000,000 shares authorized; 2,000,000 and 0 issued and outstanding at September 30, 2004 and December 31, 2003, respectively ($50,000 and $0 aggregate liquidation preference) (Note 9)	20	–
Common Stock, $.01 par value; 370,000,000 shares authorized; 79,788,932 and 63,201,224 issued and outstanding at September 30, 2004 and December 31, 2003, respectively	798	632
Additional paid-in capital	717,039	512,199
Accumulated earnings/(deficit) (Note 9)	1,328	(15,764)
Accumulated other comprehensive loss (Note 11)	(30,514)	(12,109)
	688,671	484,958
	$ 6,219,075	$ 4,564,930

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

MFA MORTGAGE INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
		(Unaudited)		
Interest Income:				
MBS income	$ 42,210	$ 26,290	$ 120,954	$ 88,997
Interest income on temporary cash investments	205	192	543	463
Total Interest Income	42,415	26,482	121,497	89,460
Interest Expense	21,959	13,386	57,052	43,053
Net Interest Income	20,456	13,096	64,445	46,407
Other Income:				
Loss from equity interests in real estate	–	(227)	–	(369)
Revenue from operations of real estate	1,031	723	3,068	1,944
Gain (loss) on sale of securities	371	(599)	371	(265)
Gain on sale of real estate and equity investments in real estate, net	–	1,080	–	1,701
Miscellaneous other income	7	–	181	–
Total Other Income	1,409	977	3,620	3,011
Operating and Other Expense:				
Compensation and benefits	1,368	1,002	4,187	2,882
Real estate operating expense	739	466	2,156	1,298
Mortgage interest on real estate	426	301	1,273	801
Other general and administrative expense	684	541	2,196	1,923
Total Operating and Other Expense	3,217	2,310	9,812	6,904
Net Income	$ 18,648	$ 11,763	$ 58,253	$ 42,514
Less: Preferred Stock Dividends	1,062	–	1,818	–
Net Income Available to Common Stockholders	$ 17,586	$ 11,763	$ 56,435	$ 42,514
Income Per Share Available to Common Stockholders:				
Net income per share – basic	$ 0.22	$ 0.21	$ 0.76	$ 0.82
Weighted average shares outstanding – basic	78,607	57,248	74,591	51,634
Net income per share – diluted	$ 0.22	$ 0.21	$ 0.76	$ 0.82
Weighted average shares of Common Stock and common stock equivalents outstanding – diluted	78,653	57,337	74,640	51,696

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

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

(In Thousands, Except Per Share Amounts)	Nine Months Ended September 30, 2004 (Unaudited)
8.50% Series A Cumulative Redeemable Preferred Stock (Par Value $.01 – Liquidation Preference $25.00)("Preferred Stock")	
Balance at December 31, 2003	$ –
Issuance of shares	20
Balance at September 30, 2004	20
Common Stock (Par Value $.01):	
Balance at December 31, 2003	632
Issuance of shares	166
Balance at September 30, 2004	798
Additional Paid-in Capital:	
Balance at December 31, 2003	512,199
Issuance of Common Stock, net of expenses	156,158
Issuance of Preferred Stock, net of expenses	48,265
Exercise of Common Stock options	–
Compensation expense for Common Stock options	417
Balance at September 30, 2004	717,039
Accumulated Income/(Deficit):	
Balance at December 31, 2003	(15,764)
Net income	58,253
Dividends declared on Common Stock	(39,343)
Dividends declared on Preferred Stock	(1,818)
Balance at September 30, 2004	1,328
Accumulated Other Comprehensive Loss:	
Balance at December 31, 2003	(12,109)
Unrealized loss on MBS during period, net	(17,772)
Unrealized gain on Cap Agreements	433
Unrealized loss on Swaps	(1,066)
Balance at September 30, 2004	(30,514)
Total Stockholders' Equity	$ 688,671

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

MFA MORTGAGE INVESTMENTS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(Unaudited)	
Cash Flows From Operating Activities:		
Net income	$ 58,253	$ 42,514
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on sale of portfolio investments	(371)	265
Amortization of purchase premiums on investments	35,465	34,601
Amortization of premium cost for Cap Agreements	1,713	188
(Increase) decrease in interest receivable	(7,449)	874
Increase in other assets, receivable under DRSPP and other	(3,012)	(477)
(Decrease) increase in accrued expenses, other liabilities and MBS purchase payables	(13,440)	370
Increase (decrease) in accrued interest payable	12,503	(3,066)
Stock option expense	417	–
Net cash provided by operating activities	84,079	75,269
Cash Flows From Investing Activities:		
Principal payments on MBS	1,517,331	1,539,355
Proceeds from sale of MBS	39,950	389,009
Purchases of MBS	(3,341,359)	(2,557,673)
Loss from equity interests in real estate in excess of distributions	–	2,363
Amortization of mortgage principal for real estate investments	(139)	(132)
Non-cash equity losses from operations of real estate investments	–	369
Gains on sales of equity interest in real estate	–	(1,701)
Cash recognized upon consolidation of subsidiary	258	–
Depreciation and amortization	602	332
Net cash used by investing activities	(1,783,357)	(628,078)
Cash Flows From Financing Activities:		
Purchase of Cap Agreements	(2,394)	–
Increase in restricted cash	–	39
Net increase in borrowings under repurchase agreements	1,459,653	578,208
Net proceeds from issuance of Preferred Stock	48,285	–
Net proceeds from issuance of Common Stock	156,324	120,826
Dividends paid on Common Stock	(55,266)	(43,335)
Dividends paid on Preferred Stock	(1,818)	–
Proceeds from exercise of stock options	–	409
Net cash provided by financing activities	1,604,784	656,147
Net (decrease) increase in cash and cash equivalents	(94,494)	103,338
Cash and cash equivalents at beginning of period	139,707	64,087
Cash and cash equivalents at end of period	$ 45,213	$ 167,425
Supplemental Cash Flow Information:		
Cash paid during the period for interest	$ 42,877	$ 46,119
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

(In Thousands)	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(Unaudited)	
Net income available to Common Stockholders before Preferred Stock dividends	$ 58,253	$ 42,514
Other Comprehensive Income:		
Unrealized holding losses on MBS, net	(17,772)	(26,544)
Unrealized holding gains /(losses) on Caps, net	433	(639)
Unrealized holding losses on Swaps	(1,066)	–
Other Comprehensive Income before Preferred Stock Dividends	$ 39,848	$ 15,331
Preferred Stock dividends	(1,818)	–
Comprehensive Income	$ 38,030	$ 15,331

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 SEC 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 September 30, 2004 and results of operations for all periods presented have been made. The results of operations for the nine-month period ended September 30, 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

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. All of the Company’s MBS are designated as available-for-sale and are carried at their estimated fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income, a component of Stockholders’ Equity.

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 or changes in economic conditions, to ensure future liquidity and to meet other general corporate purposes as they arise. Gains or losses on the sale of investment securities are based on the specific identification method. (See Note 2e.)

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 Federal Home Loan Mortgage Corporation (“Freddie Mac”) (collectively, “Agency MBS”). Hybrid MBS have interest rates that are fixed for a specified period and, thereafter, generally reset annually. At September 30, 2004, 85.1% 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 on MBS.

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.

(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 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 consists of 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 September 30, 2004, 96.02% of the Company's assets consisted of Agency MBS and related receivables, 2.55% were MBS rated "AAA" by Standard and Poor's Corporation, a nationally recognized rating agency, and related receivables and 0.73% were of cash and cash equivalents; combined these assets comprised 99.3% of the Company's total assets.

Other-than-temporary losses on investment securities, 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 credit 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 significant change. At September 30, 2004 and December 31, 2003, the Company had no assets on which an impairment charge had been made.

(f) Real Estate Investments/Equity Interest in Real Estate

At September 30, 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, which directly holds these two properties, is consolidated with its subsidiaries and with the Company. In addition, at September 30, 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 Financial Accounting Standards Board ("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. Maintenance, repairs and minor improvements are charged to expense in the period incurred, while capital improvements are capitalized and depreciated. Depreciation and amortization are computed using the straight-line method over the estimated useful life of the related asset components. The Company intends to hold its remaining real estate investments as long-term investments.

(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, while 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 interest rate. Margin calls, whereby a lender requires that the Company pledge additional collateral to secure borrowings under its repurchase agreements with such lender, are routinely experienced by the Company as the current face value (i.e., par value) of its MBS declines due to scheduled monthly amortization and prepayments of principal on such MBS. In addition, margin calls may also occur when the fair value of the MBS pledged as collateral declines due to increases in market interest rates or other market conditions. Through September 30, 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. 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 exposure to any lender of no more than three times the Company's stockholders' equity. As of September 30, 2004, the Company had repurchase agreements with 13 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 $78.4 million. (See Note 7.)

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

Basic EPS is computed by dividing net income available to holders of Common Stock by the weighted average number of shares of Common Stock outstanding during the period. Diluted EPS is computed by dividing net income available to holders of Common Stock 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 effect of unexercised dilutive 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/(Loss)

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 declared on Common Stock. Such comprehensive income for the Company includes net income, the change in net unrealized holding gains/(losses) on investments and certain derivative instruments reduced by dividends on Preferred Stock. (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.

(k) Derivative Financial Instruments/Hedging Activity

The Company's hedges through the use of derivative financial instruments, comprised of Caps and Swaps (collectively, "Hedging Instruments"). The Company accounts for Hedging Instruments 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", and FAS No. 149 "Amendment of Statement 133 on Derivative Instrument and Hedging Activities." In accordance with FAS 133, all Hedging Instruments are carried on the balance sheet at their fair value, as an asset, if their fair value is positive, or as a liability, if their fair value is negative. Since the Company's derivatives are designated as "cash flow hedges," the change in the fair value of any such derivative is recorded in other comprehensive income for hedges that qualify as effective and is transferred from other comprehensive income to earnings as the hedged liability affects earnings. The ineffective amount of all Hedging Instruments, if any, is recognized in earnings each quarter. To date, the Company has not recognized any change in the value of its Hedging Instruments in earnings as a result of the hedge or a portion thereof being ineffective.

Upon entering into hedging transactions, the Company formally documents the relationship between the Hedging Instruments and the hedged liability. The Company also documents its risk-management policies, including objectives and strategies, as they relate to its hedging activities. The Company assesses, both at inception of a hedge and on an on-going basis, whether or not the hedge is highly "effective," as defined by FAS 133. The Company discontinues hedge accounting on a prospective basis with changes in the estimated fair value reflected in earnings when: (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedged item (including hedged items such as forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as a Hedging Instrument is no longer appropriate. To date, the Company has not discontinued hedge accounting for any of its Hedging Instruments.

The Company utilizes Hedging Instruments to manage interest rate risk and does not anticipate entering into derivative transactions for speculative or trading purposes. (See Note 5.) In order to limit credit risk associated with the counterparties to derivative instruments, the Company's policy is to enter into derivative contracts with financial institutions rated "A" or better by at least one of the Rating Agencies at the time of purchase.

Cap Agreements

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.

The Company purchases Cap Agreements by incurring a one-time fee or premium. Pursuant to the terms of the Cap Agreements, the Company will receive cash payments if the interest rate index specified in any such Cap Agreement increases above contractually specified levels. Therefore, such Cap Agreements have the effect of capping the interest rate on a portion of the Company's borrowings above a level specified by the Cap Agreement.

Interest Rate Swaps

When the Company enters into a Swap, it agrees to pay a fixed rate of interest and to receive a variable interest rate, generally based on the London Interbank Offered Rate ("LIBOR"). The Company's Swaps are designated as cash flow hedges against the benchmark interest rate risk associated with the Company's borrowings. The unrealized gain/loss on any Swap is based on the discounted value of the remaining future net interest payments expected to be made over the remaining life of such Swap. Therefore, over time, as the actual payments are made, the unrealized gain/loss in accumulated other comprehensive income/(loss) and the carrying value of the Swap adjusts to zero and the Company realizes a fixed cost of money over the life of such Swap.

All changes in the unrealized gains/losses on any Swap are recorded in accumulated other comprehensive income/(loss) and are reclassified to earnings as interest expense is recognized on the Company's hedged borrowings. If it becomes probable that the forecasted transaction, which in this case refers to interest payments to be made under the Company's short-term borrowing agreements, will not occur by the end of the originally specified time period, as documented at the inception of the hedging relationship, then the related gain or loss in accumulated other comprehensive income/(loss) would be reclassified to income.

Realized gains and losses resulting from the termination of a Swap are initially recorded in accumulated other comprehensive income/(loss) as a separate component of equity. The gain or loss from a terminated Swap remains in accumulated other comprehensive income/(loss) until the forecasted interest payments affect earnings. If it becomes probable that the forecasted interest payments will not occur, then the entire gain or loss would be recognized though earnings.

(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. (See Note 12.)

(m) Adoption of New Accounting Standards

In January 2003, the FASB issued FIN 46, which was amended in December 2003. FIN 46, as amended, 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.)

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 3.0% of gross receipts, increasing to a maximum of 4.0% of gross receipts upon attaining certain performance goals. The Property Manager was paid fees of approximately $31,848 and $94,357 for the three and nine month periods ended September 30, 2004, respectively, and $39,000 and $119,000 for the three and nine months period ended September 30, 2003, respectively. 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, is the Chairman of AFC and Mr. Yanney and George H. Krauss, one of the Company's directors, have beneficial interests in 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 three and nine months ended September 30, 2004, the Company earned fees of $15,000 and $50,400, respectively, 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 September 30, 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, when available, or investment banks that trade such securities. The following table presents the carrying value of the Company's MBS as of September 30, 2004 and December 31, 2003.

(In Thousands)	September 30, 2004	December 31, 2003
Fannie Mae Certificates	$ 3,811,064	$ 2,782,066
Ginnie Mae Certificates	1,308,857	344,363
Freddie Mac Certificates	825,744	1,109,941
Non-agency "AAA" rated	158,265	136,348
	$ 6,103,930	$ 4,372,718

At September 30, 2004 and December 31, 2003, the Company's portfolio of MBS consisted of pools of ARM-MBS with carrying values of approximately $6.097 billion and $4.366 billion, respectively, and fixed-rate MBS with carrying values of approximately $7.3 million and $6.6 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" Rated MBS: Non-Agency "AAA" rated MBS are privately issued certificates that are backed by pools of single-family and multi-family mortgage loans. Non-Agency "AAA" MBS are rated as such by one of the Rating Agencies. "AAA" is the highest 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 September 30, 2004 and December 31, 2003:

(In Thousands)	September 30, 2004	December 31, 2003
Principal balance	$ 5,956,337	$ 4,245,458
Principal payment receivable	44,026	40,170
	6,000,363	4,285,628
Unamortized premium	130,395	96,162
Unaccreted discount	(283)	(299)
Gross unrealized gains	9,737	10,882
Gross unrealized losses	(36,282)	(19,655)
Carrying value/estimated fair value	$ 6,103,930	$ 4,372,718

At September 30, 2004, the Company had 50 MBS, with an amortized cost of $918.4 million, that had unrealized losses for 12 or more months. All of the Company's MBS are either Agency MBS, which have an implied "AAA" rating, or non-agency MBS that are rated "AAA" and, as such, none of the unrealized losses attributable to such MBS are considered to be credit related. The Company currently believes that it has the ability to continue to hold these MBS for investment purposes.

The following table presents the gross unrealized losses and estimated fair value of the Company's MBS on which there were unrealized losses, aggregated by investment category and length of time that such individual securities have been in a continuous unrealized loss position, at September 30, 2004:

	Less than 12 Months		12 or More Months		Total	
(In Thousands)	Estimated Fair Value	Unrealized losses	Estimated Fair Value	Unrealized losses	Estimated Fair Value	Unrealized losses
Agency MBS:						
Fannie Mae	$ 1,817,654	$ 11,428	$ 601,640	$ 8,980	$ 2,419,294	$ 20,408
Ginnie Mae	821,148	7,030	–	–	821,148	7,030
Freddie Mac	405,626	3,802	230,210	4,129	635,836	7,931
Non-agency "AAA" rated MBS	84,595	435	73,011	478	157,606	913
Total temporarily impaired securities	$ 3,129,023	$ 22,695	$ 904,861	$ 13,587	$ 4,033,884	$ 36,282

The following table presents interest income and premium amortization on the Company's MBS portfolio for the three and nine months ended September 30, 2004 and 2003, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2004	2003	2004	2003
Coupon interest on MBS	$ 54,755	$ 40,719	$ 156,419	$ 123,598
Premium amortization	(12,554)	(14,429)	(35,479)	(34,602)
Discount accretion	9	–	14	1
Interest income on MBS, net	$ 42,210	$ 26,290	$ 120,954	$ 88,997

5. Hedging Instruments/Hedging Activity

In connection with the Company's interest rate risk management process, the Company periodically hedges its interest rate risk by entering into derivative financial instrument contracts. To date, such instruments are comprised of Caps and Swaps, which in effect modify the repricing characteristics of the Company's repurchase agreements

and cash flows on such liabilities. The use of Hedging Instruments creates exposure to credit risk relating to potential losses that could be recognized if the counterparties to these instruments fail to perform their obligations under the contracts. To mitigate this exposure, the Company only enters into such transactions 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 event of a default by the counterparty, the Company would not receive payments provided for under the terms of the Hedging Instrument, could incur a loss for the remaining unamortized premium cost of the Cap and could have difficulty obtaining its assets pledged as collateral for Swaps.

(a) 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 September 30, 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 $4.3 million and an estimated fair value of $1.4 million at September 30, 2004, resulting in net unrealized losses of approximately $2.9 million, which is included as a component of accumulated other comprehensive income. The Company incurred premium amortization expense on its Cap Agreements, which is recorded as interest expense on the Company's repurchase agreements that such Cap Agreements hedge, of $1.7 million and $188,000 for the nine months ended September 30, 2004 and 2003, respectively. If the 30-day 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 September 30, 2004, the Company had not received any payments from counterparties related to any of its Cap Agreements.

The table below presents information about the Company's Cap Agreements at September 30, 2004:

(Dollars in Thousands)	Weighted Average Active Period	Weighted Average LIBOR Strike Rate *(1)*	Notional Amount	Unamortized Premium	Estimated Fair Value/Carrying Value	Gross Unrealized (Loss)/Gain
Months until active:						
Currently active	7 Months	4.57%	$ 310,000	$ 1,899	$ 49	$ (1,850)
Within six months	18 Months	3.75	150,000	834	412	(422)
Six to nine months	–	–	–	–	–	–
Nine to 12 months	18 Months	3.88	100,000	960	512	(448)
12 to 24 months	18 Months	3.75	50,000	601	418	(183)
Weighted Average/Total	13 Months	4.17%	$ 610,000	$ 4,294	$ 1,391	$ (2,903)

(1) The 30-day LIBOR strike rate at which payments would become due to the Company under the terms of the Cap Agreement. At September 30, 2004, the 30-day LIBOR was approximately 1.84%.

(b) Interest Rate Swap

The Company's Swaps are used to lock-in the fixed Swap rate related to a portion of its current and anticipated future 30-day term repurchase agreements.

The table below presents information about the Company's Swaps at September 30, 2004:

(Dollars in Thousands)	Weighted Average Active Period	Notional Amount	Weighted Average Swap Rate	Estimated Fair Value/Carrying Value	Gross Unrealized Loss
Currently Active	23 Months	$ 180,000	3.19%	$ (1,066)	$ (1,066)

MFA MORTGAGE INVESTMENTS, INC.
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6. Real Estate and Equity Interests in Real Estate

At September 30, 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.

Real estate investments, all of which were consolidated with the Company at September 30, 2004, and equity interests in real estate at December 31, 2003 were as follows:

(In Thousands)	September 30, 2004 *(1)*	December 31, 2003 *(1)*
Real Estate:		
Land and buildings	$ 30,210	$ 21,486
Cash	421	283
Prepaid and other assets	537	324
Mortgages payable	(22,734) *(2)*	(16,161)
Accrued interest payable	(99)	(58)
Other payables	(371)	(210)
Net real estate related assets	$ 7,964	$ 5,664
Equity Interest in Real Estate	$ –	$ 2,802

(1) 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.

(2) 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 September 30, 2004, these mortgages had fixed interest rates ranging from 6.87% to 8.08% 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 improvements which remained outstanding at September 30, 2004, such loan is eliminated in consolidation.

MFA MORTGAGE INVESTMENTS, INC.
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The following table presents the summary results of operations for such real estate investments that were consolidated, for the three and nine months ended September 30, 2004 and 2003:

(In Thousands)	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Revenue from operations of real estate	$ 1,031	$ 3,068
Interest expense for mortgages on real estate	(426)	(1,273)
Real estate operating expense	(739)	(2,156)
	$ (134)	$ (361)

(In Thousands)	Three Months Ended September 30, 2003*(1)*	Nine Months Ended September 30, 2003*(1)*
Revenue from operations of real estate	$ 723	$ 1,944
Interest expense for mortgages on real estate	(301)	(801)
Real estate operating expense	(466)	(1,298)
	$ (44)	$ (155)

(1) Presents the summary results of real estate operations of RCC, as consolidated with its subsidiaries.

The Company reported income from equity interests in real estate included the results of operations for Owings Chase Limited Partnership and two additional real estate investments, which were sold during 2003. The Company did not report any income from equity interest in real estate for the three and nine months ended September 30, 2004, as all real estate investments have been consolidated since January 1, 2004 on a prospective basis.

(In Thousands)	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2003
Loss from equity interests in real estate	$ 227	$ 369

7. Repurchase Agreements

The Company's repurchase agreements are collateralized by the Company's MBS and typically bear interest at rates that are LIBOR-based. At September 30, 2004, the Company had outstanding balances of $5.484 billion under 355 repurchase agreements with a weighted average borrowing rate of 1.79% and a weighted average remaining contractual maturity of 6.0 months. At September 30, 2004, all of the Company's borrowings were fixed-rate term repurchase agreements. 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 September 30, 2004 and December 31, 2003, the repurchase agreements had the following remaining contractual maturities:

(In Thousands)	September 30, 2004	December 31, 2003
Within 30 days	$ 1,016,026	$ 412,611
>30 days to 3 months	1,872,252	503,044
>3 months to 6 months	899,309	1,022,560
>6 months to 12 months	647,342	1,613,761
>12 months to 24 months	1,049,100	148,200
>24 months to 36 months	–	324,200
	$ 5,484,029	$ 4,024,376

8. Commitments and Contingencies

(a) Lease Commitments

At September 30, 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 calls for, among other things, annual rent of (i) $338,000 though 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, New York. This lease provides for, among other things, annual rent of $23,000.

(b) Securities Purchase Commitments and Other Commitments

At September 30, 2004, the Company had commitments to purchase two ARM-MBS, issued by Fannie Mae, with an aggregate par value of $38.7 million and an average purchase price of 101.89% of par. These purchases settled on October 25, 2004.

9. Stockholders' Equity

(a) Dividends on Preferred Stock

The following table presents dividends declared by the Company on its Preferred Stock, since such securities were issued on April 27, 2004.

Declaration Date	Record Date	Payment Date	Dividend Per share
May 27, 2004	June 4, 2004	June 30, 2004	$0.37780
August 24, 2004	September 1, 2004	September 30, 2004	0.53125

(b) Dividends/Distributions on Common Stock

The following table presents common dividends declared by the Company on its Common Stock from January 1, 2003 through September 30, 2004:

Declaration Date	Record Date	Payment Date	Dividend Per share
2004			
April 1, 2004	April 12, 2004	April 30, 2004	$0.260 *(1)*
July 1, 2004	July 12, 2004	July 30, 2004	0.250
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

(1) $0.25 quarterly dividend plus $0.01 special dividend.

On October 1, 2004, the Company declared its 2004 third quarter common dividend of $0.23, payable on October 29, 2004, to stockholders of record on October 12, 2004. (See Note 13a.)

(c) Shelf Registration Statements

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 SEC declared the registration statement effective. At September 30, 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 shelf registration statement effective. On July 21, 2004, the Company filed a post-effective amendment to this shelf registration statement, which was declared effective by the SEC on August 12, 2004. At September 30, 2004, the Company had $299.8 million available under this shelf registration statement.

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 DRSPP. This registration statement was declared effectively by the SEC on December 15, 2003 and, when combined with the unused portion of the Company's previous DRSPP shelf registration statement, registered an aggregate of 12.1 million shares of Common Stock. At September 30, 2004, 1,534,779 shares of Common Stock remained available for issuance pursuant to this DRSPP shelf registration statement.

(d) Equity Issued

On February 13, 2004, the Company issued 7,500,000 shares of 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 related underwriters' over-allotment option. The Company raised aggregate net proceeds of $82.8 million from such public offering.

On April 27, 2004, the Company issued 2,000,000 shares of Series A Preferred Stock at $25.00 per share in an underwritten public offering. The Preferred Stock has a liquidation value of $25.00 per share. In addition, the 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.

In September 2003, the Company initiated its DRSPP, 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). During the nine months ended September 30, 2004, the Company sold 7,261,808 shares of Common Stock through the DRSPP raising net proceeds of $67.2 million.

On August 20, 2004, the Company initiated a controlled equity offering program (the "CEO Program") through which it may publicly offer and sell, from time to time, shares of Common Stock through Cantor Fitzgerald & Co. ("Cantor") in privately negotiated and/or at-the-market transactions. During the three months ended September 30, 2004, the Company sold 700,900 shares of Common Stock in at-the-market transactions through the CEO Program raising net proceeds of $6.4 million and, in connection with such sales, Cantor received aggregate fees and commissions of $163,047.

10. EPS Calculation

The following presents a reconciliation of the earnings and shares used in calculating basic and diluted net earnings per share of Common Stock:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
(In Thousands)				
Net Income	$ 18,648	$ 11,763	$ 58,253	$ 42,514
Less: Preferred Stock dividends	1,062	–	1,818	–
Net income available to Common Stockholders	$ 17,586	$ 11,763	$ 56,435	$ 42,514
Weighted average shares of Common Stock outstanding – basic	78,607	57,248	74,591	51,634
Add: Effect of assumed shares issued under treasury stock method for stock options	46	89	49	62
Weighted average shares of Common Stock outstanding - diluted	78,653	57,337	74,640	51,696

11. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss at September 30, 2004 and December 31, 2003 was as follows:

(In Thousands)	September 30, 2004	December 31, 2003
Available-for-sale MBS:		
Unrealized gains	$ 9,737	$ 10,882
Unrealized losses	(36,282)	(19,655)
	(26,545)	(8,773)
Hedging Instruments:		
Unrealized losses on Caps	(1,066)	(3,336)
Unrealized losses on Swaps	(2,903)	–
Accumulated other comprehensive loss	$ (30,514)	$ (12,109)

12. 2004 Equity Compensation Plan and Employment Agreements

(a) 2004 Equity Compensation Plan

During the second quarter of 2004, the Company adopted the 2004 Equity Compensation Plan (the "2004 Plan"), as approved by the Company's stockholders. The 2004 Plan amended and restated the Company's Second Amended and Restated 1997 Stock Option Plan.

In accordance with the terms of the 2004 Plan, directors, officers and employees of the Company and any of its subsidiaries and other persons expected to provide significant services (of a type expressly approved by the committee as covered services for these purposes) to the Company and any of its subsidiaries are eligible to be granted stock options ("Options"), restricted stock, phantom shares, dividend equivalent rights ("DERs") and other stock-based awards under the 2004 Plan.

In general, subject to certain exceptions, stock-based awards relating to a maximum of 3,500,000 shares of Common Stock may be granted under the 2004 Plan; forfeitures and/or awards that expire unexercised do not count towards such limit. Subject to certain exceptions, a participant may not receive stock-based awards relating to greater than 500,000 shares of Common Stock in any one-year and no award may be granted to any person who, assuming exercise of all Options and payment of all awards held by such person, would own or be deemed to own more than 9.8% of the outstanding shares of the Company's capital stock. At September 30, 2004, an aggregate of 1,087,000 shares were subject to outstanding awards under the 2004 Plan of which 680,500 were exercisable. Unless previously terminated by the Board, awards may be granted under the 2004 Plan until the tenth anniversary of the date that the Company's stockholders approved such plan.

A DER is a right to receive, as specified by the committee at the time of grant, a distribution equal to the dividend distributions paid on a share of Common Stock. DERs may be granted separately or together with awards and are paid in cash or other consideration at such times, and in accordance with such rules, as a committee of the Board shall determine in its discretion. At September 30, 2004, the Company had 960,750 DERs outstanding, of which 576,750 were vested.

Pursuant to Section 422(b) of the Code, in order for stock options granted under the 2004 Plan and vesting in any one calendar year to qualify as an incentive stock option ("ISO") for tax purposes, the market value of the Common Stock, as determined on the date of grant, shall not exceed $100,000 during a calendar year. The exercise price of ISOs may not be lower than 100% (110% in the case of an ISO granted to a 10% stockholder) of the fair market value of the Common Stock on the date of grant. The exercise price for any other Option so issued may not be less than the fair market value on the date of grant. Each Option is exercisable after the period or periods specified in the award agreement, which will generally not exceed ten years from the date of grant. Options will be exercisable at such times and subject to such terms as determined by a committee of the Board.

During the nine months ended September 30, 2004, the Company granted 80,000 Options with exercise prices equal to the closing sales prices of the Common Stock on the NYSE on the date of grant. Such grants had a weighted average strike/exercise price of $9.54; 57,500 of such Options were granted with DERs attached. These grants are subject to vesting as follows: (a) 50,000 Options and DERs vested 25% on the date of grant, with the remaining 75% vesting equally over the next three years; and (b) 30,000 Options and 7,500 DERs vesting on the one-year anniversary of the date of such grant. The Company uses the Black-Scholes valuation model to determine the option expense. The Company does not assume forfeitures, but rather adjusts the stock option expense based on actual forfeitures. The following represents the weighted average assumptions used to value the Options granted during the nine months ended September 30, 2004:

Weighted Average Strike Price	Weighted Average Fair Value for Options Granted	Weighted Average Dividend Yield	Weighted Average Volatility	Weighted Average Risk-Free Interest Rate	Weighted Average Expected Life in Years
$9.54	$3.34	3.38% *(1)*	34.13%	3.90%	7

(1) 57,500 of the 80,000 Options granted, were granted with DERs attached. Options granted with DERs attached are assumed to have a dividend yield of 0%.

Dividends are paid on vested DERs only to the extent of ordinary income. Dividends paid on DERs granted to employees and directors of the Company subsequent January 1, 2003 are charged to stockholders' equity when declared and dividends paid on DERs granted to directors that are not employees of the Company prior to January 1, 2003 are charged to earnings when declared. For the three and nine months ended September 30, 2004, the Company recorded a charge of $144,000 and $294,000, respectively, to stockholders' equity associated with vested DERs held by employees and incurred an expense of approximately $1,000 associated with vested DERs held by directors.

(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"). Pursuant to the Deferred Plans, directors and senior officers of the Company may elect to defer a percentage of certain compensation. 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 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 September 30, 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:

(In Thousands)	September 30, 2004	December 31, 2003
Directors’ deferred	$ 273	$ 130
Officers’ deferred	129	–
	$ 402	$ 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 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 annual match of $8,000. 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%. The Company recognized expenses for matching contributions for the quarters ended September 30, 2004 and 2003, of $15,500 and $12,000, respectively and $47,000 and $36,000 for the nine months ended September 30, 2004 and 2003, respectively.

13. Subsequent Events

(a) Dividend Declared

On October 1, 2004, the Company declared a third quarter 2004 dividend of $0.23 per share on its Common Stock to stockholders of record on October 12, 2004. Dividends of $18.4 million will be paid on October 29, 2004 on shares of Common Stock.

(b) Issuance of Preferred Stock

On October 21, 2004, the Company sold 1,840,000 additional shares of Preferred Stock at $24.6365 per share (plus accrued and undeclared dividends from October 1, 2004) in an underwritten public offering. The Company received approximately $43.8 million in aggregate net proceeds (plus accrued and undeclared dividends from October 1, 2004) from this offering of Preferred Stock.

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 and investments in REIT securities and other securities; however, such assets do not comprise a significant amount of the Company's assets. 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 $6.219 billion at September 30, 2004 and $4.565 billion at December 31, 2003. As of September 30, 2004, 99.3% of the Company's assets consisted of Agency and "AAA" rated MBS, related MBS receivables and cash. At September 30, 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 varies primarily as a result of changes in interest rates, the slope of the yield curve, borrowing costs and prepayment speeds on the Company's MBS portfolio, 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 the financial markets, competition and other factors, none of which can be predicted with any certainty. For the Company, increases in interest rates, in general, may 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 reset to higher interest rates; and (iv) the value of the Company's MBS portfolio and stockholders' equity to decline. Conversely, decreases in interest rates, in general, may 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 reset to lower interest rates; and (iv) the value of the MBS portfolio and stockholders' equity to increase. In addition, borrowing costs are further affected by the Company's creditworthiness.

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 September 30, 2004, such assets have the potential of causing a material impact on the Company's operating performance in future periods.

Since the fourth quarter of 2003, the Company, through subsidiaries, has provided third-party advisory services as a sub-advisor to AFAI with respect to AFAI's acquisition and disposition of MBS and the maintenance of AFAI's MBS portfolio. The Company earned fees of $51,000 related to such business during the nine months ended September 30, 2004. The Company may grow its third-party advisory revenue over time.

The Company continues to explore alternative business strategies, alternative investments, alternative financing sources and other strategic initiatives to complement the Company's core business strategy of investing, on a leveraged basis, in high quality ARM-MBS, including, without limitation, the acquisition of adjustable-rate and

hybrid mortgage loans secured by single-family residences and the securitization of such mortgage loans. No assurance, however, can be provided that any such strategic initiatives will or will not be implemented in the future.

RESULTS OF OPERATIONS

In comparing the results of operations for the three and nine months ended September 30, 2004 to the results for the three and nine months ended September 30, 2003, the Company notes that the components of net interest income and earnings per share of Common Stock for the periods reflect substantial growth in interest-earning assets and interest-bearing liabilities. Such growth was funded through the investment of, on a leveraged basis, $235.9 million of equity capital between September 30, 2003 through September 30, 2004. This capital reflects the issuance of 19.9 million additional shares of Common Stock and 2.0 million shares of Preferred Stock.

The Company strategically maintained lower leverage during the second and third quarter of 2004, than it had during 2003, in anticipation of the availability of higher coupon MBS in future periods. For the quarters ended September 30, 2004 and September 30, 2003, the Company had an average assets-to-equity ratio of 8.7x and 9.3x, respectively. The Company's return on equity ("ROE") for the third quarter of 2004 was 10.70%, compared to an ROE of 10.74% for the third quarter of 2003, which reflects the combined impact of lower leverage off-set by increases in the net interest margin and net interest spread (i.e., net interest income divided by interest-earning assets.)

Three-Month Period Ended September 30, 2004 Compared to the Three-Month Period Ended September 30, 2003

Net income increased to $18.6 million, or $0.22 per share of Common Stock, for the quarter ended September 30, 2004, from net income of $11.8 million, or $0.21 per common share, for the quarter ended September 30, 2003. During the quarter ended September 30, 2004, the Company's net income available to Common Stockholders increased by 49.5%, while weighted average basic shares of Common Stock outstanding increased by 37.3%. As a result, earnings per share for Common Stockholders increased to $0.22 for the third quarter of 2004, from $0.21 per share for the third quarter of 2003.

Interest income for the third quarter of 2004 increased by $15.9 million, or 60.2%, to $42.4 million compared to $26.5 million earned during the third quarter of 2003. The increase in interest income primarily reflects growth in the Company's average MBS portfolio, which was funded through the investment of additional equity capital raised, since September 30, 2003, on a leveraged basis. Excluding changes in the market value of the Company's MBS portfolio, the Company's average investment in MBS increased by $1.651 billion, or 41.6%, to $5.623 billion for the third quarter of 2004 from $3.972 billion for the third quarter of 2003. In addition, the net yield on the MBS portfolio increased to 3.00% for the third quarter of 2004, from 2.65% for the third quarter of 2003. This increase primarily reflects: (i) a 64 basis point reduction in the cost of premium amortization, reflecting lower prepayment speeds experienced during the 2004 quarter compared to the 2003 quarter when prepayments resulted in a 41.2% CPR for the quarter, and was partially offset by (ii) a decrease in the gross yield on the MBS portfolio of 34 basis points to 4.11% for the third quarter of 2004 from 4.45% for the third 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	Gross Yield/ Stated Coupon	Cost of Premium	Net Premium Amortization	Cost of Delay on Principal Receivable	Net Yield
September 30, 2004	4.11%	(0.09)%	(0.94)%	(0.08)%	3.00%
June 30, 2004	4.09	(0.09)	(1.12)	(0.08)	2.80
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

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

Quarter Ended	CPR
September 30, 2004	29.0%
June 30, 2004	32.4
March 31, 2004	22.9
December 31, 2003	31.9
September 30, 2003	41.2

The Company believes that the CPR on its MBS portfolio in future periods will depend, in part, on changes in, and the level of, market interest rates across the yield curve. As expected, increases in interest rates during the second quarter of 2004 led to lower prepayment speeds experienced on the Company's MBS portfolio during the third quarter of 2004. The Company strategically maintained lower leverage during the third quarter of 2004 than it had during the third quarter of 2003, in anticipation of the availability of higher coupon MBS in future periods. At September 30, 2004, the Company had net purchase premiums of $130.1 million, or 2.2% of the principal balance of the MBS portfolio, compared to net purchase premiums of $95.9 million, or 2.3% of the principal balance of the MBS portfolio at December 31, 2003.

The table below provides quarterly information regarding the Company's average balances on interest-earning assets and interest bearing liabilities, interest income, interest expense, yield on assets, cost of funds and net interest income for the 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
(Dollars in Thousands)									
September 30, 2004	$ 5,622,860	$ 42,210	$ 57,972	$ 42,415	2.99%	$ 5,000,688	$ 21,959	1.75%	$ 20,456
June 30, 2004	5,519,266	38,678	89,099	38,849	2.77	4,965,493	18,952	1.53	19,897
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

(1) Does not reflect unrealized gains and losses.

Interest expense for the third quarter of 2004 increased 64.0% to $22.0 million, from $13.4 million for the third quarter of 2003, while the average balance of repurchase agreements for the third quarter of 2004 increased by 37.5% to $5.001 billion, compared to $3.637 billion for the third quarter of 2003. In addition to increased borrowings, which reflects the leveraging of equity capital raised since September 2003, the Company's cost of borrowings, which includes the cost of its Hedging Instruments, was 1.75% for the third quarter of 2004, compared to 1.46% for the third quarter of 2003. The increase in borrowing costs primarily reflects increases in LIBOR during 2004. In addition, the cost of the Company's Hedging Instruments increased to $881,000, or 7 basis points, for the third quarter of 2004, from $162,000, or 2 basis points, for the third quarter of 2003. In the future, the Company's Hedging Instruments may result in interest expense or a reduction to interest expense depending on the terms contained in such instruments relative to the instruments benchmark market rate. (See Notes 2k and 5 to the accompanying Consolidated Financial Statements, included under Item 1.) In general, the Company's interest-bearing liabilities tend to reprice sooner than the Company's interest-earning assets. As a result, the Company expects that the recent increases in the target federal funds interest rates will cause the Company's cost of funding to continue to increase during the fourth quarter of 2004. The Company did not receive any payments under its Cap Agreements during either the third quarter of 2004 or 2003, as one-month LIBOR, which is the benchmark interest rate stipulated in the Cap Agreements, did not exceed the strike rate set forth in any of the Company's active Cap Agreements during such periods. At September 30, 2004, the Company had unamortized premiums of $4.3 million on 16 Cap Agreements with an aggregate notional amount of $610.0 million, of which $310.0 million were active. At September 30, 2004, the Company had three fixed-pay Swaps, all of which were active, having an aggregate notional amount of $180.0 million. These Swaps have a weighted average fixed payor rate (i.e., the fixed interest rate which the Company pays in exchange for receiving a variable rate of interest based on 30-day LIBOR) of approximately 3.19% and a weighted average remaining term to expiration of 23 months. In effect, the Company's Swaps lock-in the fixed swap rate on a portion, equal to the aggregate notional amount of the Swaps, of the

Company's 30-day term repurchase agreements over the active period of the Swap. As of September 30, 2004, the Swaps had the effect of extending the weighted average term of the Company's repurchase agreements by approximately one month.

For the quarter ended September 30, 2004, the Company's net interest income increased by $7.4 million, to $20.5 million, from $13.1 million for the quarter ended September 30, 2003. As a result of the increase in the net yield on the Company's interest-earning assets, which was partially offset by higher cost of borrowings, the Company's net interest spread and net interest margin increased to 1.24% and 1.45%, respectively, for the three months ended September 30, 2004, compared to 1.15% and 1.30%, respectively, for the third quarter of 2003. The improvement in the net yield on the MBS portfolio and the resulting improvement in the interest spread and margin are attributable to the decline in CPR experienced by the Company's MBS portfolio during the third quarter of 2004, compared to the third quarter of 2003.

Other income increased to $1.4 million for the third quarter of 2004, from $977,000 for the third quarter of 2003. For the quarter ended September 30, 2004, other income was primarily comprised of consolidated revenue from operations of real estate and gain on sale of MBS. Prior to January 1, 2004, the Company accounted for three of its real estate investments under the equity method. Two of these investments were sold during 2003, with one sale occurring during the third quarter of 2003 and resulting in a $1.1 million gain realized during such period. The remaining unsold real estate investment was consolidated with the Company commencing January 1, 2004. The Company does not anticipate that the operations of its three remaining real estate investments, all of which are consolidated, will have a significant impact on the future results of operations of the Company. (See Note 6 to the accompanying Consolidated Financial Statements, included under Item 1.) During the third quarter of 2004, the Company sold MBS with a carrying value of approximately $39.6 million, realizing gains of $371,000 on such sales, compared to the third quarter of 2003, when sales of MBS resulted in a net loss of $599,000. While the Company generally intends to hold its MBS as long-term investments, certain MBS may be sold as part of managing the Company's interest rate risk, liquidity needs and other operating objectives. The timing and impact of future sales of MBS, if any, cannot be predicted with any certainty. The Company does not intend its MBS portfolio, or any portion thereof, to be held for trading purposes.

During the third quarter of 2004, the Company incurred operating and other expense of $3.2 million, compared to $2.3 million for the third quarter of 2003. Operating and other expense for the third quarter of 2004 includes consolidated expenses of $1.2 million for the Company's three real estate investments, as compared to consolidated expenses of $767,000 for the third quarter of 2003 for only two of the Company's three real estate investments. During the third quarter of 2003, one of these real estate investments was accounted for under the equity method, whereby the net loss from such investment of $227,000 was included as a component of other income. (See Note 6 to the accompanying consolidated financial statements, included under Item 1.) The Company's core operating expenses, comprised of compensation and benefit costs and other general and administrative items, were $2.1 million for the third quarter of 2004, or .14% of average assets, compared to $1.5 million, or .15% of average assets, for the third quarter of 2003. For the third quarter of 2004, employee compensation and benefits accounted for $1.4 million, or 66.7% of the Company's core operating expenses, of which $119,000 was a non-cash expense related to employee stock options, compared to $1.0 million for the third quarter of 2003. The increase in compensation and benefits primarily reflects increases in employees' salary and bonus, and additional hires made to meet the needs of the Company as it continues to grow and explore strategic business opportunities to complement its existing core business. Other general and administrative expense, which was $684,000 for the third quarter of 2004, compared to $541,000 for the third quarter of 2003, was 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. The Company expects that the fees it incurs for third party professional services will continue to increase in the fourth quarter of 2004 and into 2005, but does not expect that such fees will have a significant impact on the Company's results of operations.

Nine-Month Period Ended September 30, 2004 Compared to the Nine-Month Period Ended September 30, 2003

Net income increased to $58.3 million for the nine months ended September 30, 2004, while basic and diluted earnings per share decreased to $0.76, compared to net income of $42.5 million, or $0.82 per basic and diluted share, for the nine months ended September 30, 2003.

Interest income for the nine months ended September 30, 2004 increased by $32.0 million, or 35.8%, to $121.5 million compared to $89.5 million for the comparable nine months in 2003. This increase in interest income primarily reflects growth in the Company’s average MBS portfolio, which was funded through the investment of, on a leveraged basis, equity capital raised since September 30, 2003. Excluding changes in market values, the Company’s average investment in MBS increased by $1.592 billion, or 42.4%, to $5.351 billion for the first nine months of 2004 from $3.759 billion for the first nine months of 2003. In addition, the net yield on the MBS portfolio decreased to 3.01% for the first nine months of 2004 from 3.16% for the first nine months of 2003. This decrease is primarily the result of a decrease in the gross yield on the MBS portfolio of 61 basis points to 4.11% for the first nine months of 2004 from 4.72% for the first nine months of 2003, which was partially offset by a 39 basis point reduction in the cost of premium amortization, to 93 basis points for the first nine months of 2004 from 132 basis points for the comparable 2003 period. The decrease in the cost of premium amortization during the first nine months of 2004 reflects the lower CPR experienced by the Company on its MBS portfolio during this period compared to the first nine months of 2003, primarily as a result of increases in market interest rates.

Interest expense for the first nine months of 2004 increased by 32.5% to $57.1 million, from $43.1 million for the first nine months of 2003, while the average balance of repurchase agreements for the first nine months of 2004 increased by 39.6% to $4.809 billion, from $3.446 billion for the first nine months of 2003. The increase in borrowings reflects the leveraging of additional equity capital raised since September 2003. The Company’s cost of borrowings, which includes the cost of its Hedging Instruments, decreased slightly to 1.58% for the first nine months of 2004, compared to 1.67% for the first nine months of 2003; however, borrowing costs have trended upward since the fourth quarter of 2003. The cost of the Company’s Hedging Instruments increased to $1.9 million, or five basis points, for the first nine months of 2004, from $188,000, or less than one basis point, for the first nine months of 2003. In the future, the Company’s Hedging Instruments may result in interest expense or a reduction to interest expense depending on the terms contained in such instruments relative to each instrument’s benchmark market rate. (See Notes 2k and 5 to the accompanying Consolidated Financial Statements, included under Item 1.) In general, the Company’s interest-bearing liabilities tend to reprice sooner than the Company’s interest-earning assets. As a result, the Company expects that the recent increases in market interest rates will cause the Company’s cost of funding to continue to increase during the fourth quarter of 2004 and into 2005. The Company did not receive any payments under its Cap Agreements during either the first nine months of 2004 or 2003, as one-month LIBOR, which is the benchmark interest rate stipulated in the Cap Agreements, did not exceed the strike rate set forth in any of the Company’s active Cap Agreements during such periods.

For the nine months ended September 30, 2004, the Company’s net interest income increased by $18.0 million, to $64.4 million, from $46.4 million for the nine months ended September 30, 2003 reflecting growth in the Company’s MBS portfolio and repurchase agreements as a result of investing equity capital raised since September 30, 2003 on a leveraged basis. As a result of the decrease in the net yield on the Company’s interest-earning assets, which was partially offset by lower cost of borrowings, the Company’s net interest spread and net interest margins were relatively flat, decreasing to 1.40% and 1.58%, respectively, for the nine months ended September 30, 2004, compared to 1.45% and 1.60%, respectively, for the comparative 2003 period.

The quarter over quarter increase in other income to $3.6 million for the first nine months of 2004, from $3.0 million for the first nine months of 2003, primarily reflects the change in the accounting for real estate investments from the equity method applied during 2003, to consolidating such investments commencing January 1, 2004. In addition, the Company sold its interests in two real estate investments during the first nine months of 2003, resulting in a non-recurring gain of $1.7 million during 2003. (See Note 6 to the accompanying Consolidated Financial Statements, included under Item 1.) For the first nine months of 2004, other income was primarily comprised of consolidated revenue from operations of the Company’s three real estate investments and gains on the sale of three MBS. The Company has reduced its investments in real estate over time, such that its remaining three real estate investments are not expected to have a significant impact on the future results of operations of the Company. During the first nine months of 2004, the Company sold MBS with a carrying value of approximately $39.6 million, these sales occurred during the third quarter of 2004, resulting in gains of $371,000. During the first nine months of

2003, the Company realized a loss of $265,000 on the sale of MBS. While the Company generally intends to hold its MBS as long-term investments, certain MBS may be sold as part of managing the Company's interest rate risk, liquidity needs and other operating objectives. The timing and impact of future sales of MBS, if any, cannot be predicted with any certainty. The Company does not intend its MBS portfolio, or any portion thereof, to be held for trading purposes.

During the first nine months of 2004, the Company incurred operating and other expense of $9.8 million, which includes real estate operating expenses and mortgage interest of $3.4 million related to its three real estate investments, one of which was accounted for under the equity method for 2003. (See Note 6 to the accompanying Consolidated Financial Statements, included under Item 1.) The Company's core operating expenses, comprised of costs for compensation and benefits and other general and administrative items, were $6.4 million for the first nine months of 2004, or .16% of average assets, compared to $4.8 million, or .17% of average assets, for the first nine months of 2003. The cost of employee compensation and benefits was $4.2 million for the first nine months of 2004, compared to $2.9 million for the nine months of 2003. During the first nine months of 2004, the Company incurred $411,000 of non-cash compensation expense related to stock options; the Company did not incur any compensation expense related to stock options during the first nine months of 2003. The balance of the increase in compensation and benefits primarily reflects increases in salary and bonus accruals and the cost of additional hires made to meet the needs of the Company as it continues to grow and explore strategic business opportunities to complement its existing core business. Other general and administrative expense, which were $2.2 million for the first nine months of 2004 compared to $1.9 million for the first nine months of 2003, are comprised primarily of fees for professional services, including legal and accounting, corporate insurance, office rent and Board fees, certain of which are have and are expected to increase further in connection with complying with the provisions of the Sarbanes-Oxley Act of 2002. The Company expects that the fees it incurs for third party professional services will continue to increase, but does not expect that such fees will have a significant impact on the Company's results of operations.

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 capital 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 $5.484 billion at September 30, 2004 compared to $4.024 billion at December 31, 2003. This increase in borrowings was facilitated by the increase in the Company's equity capital as a result of the issuance of Common Stock during the first nine months of 2004 and Preferred Stock during the second quarter of 2004. At September 30, 2004, repurchase agreements had a weighted average borrowing rate of 1.79%, on loan balances between $190,000 and $147.6 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 nine months ended September 30, 2004, principal payments on MBS generated cash of $1.517 billion and operations provided $84.1 million in cash. As part of its core investing activities, during the first nine months of 2004, the Company acquired $3.341 billion of MBS, all of which were either Agency or "AAA" rated MBS. Through September 30, 2004, the Company paid dividends on its outstanding Common Stock and Preferred Stock totaling $57.1 million. On October 1, 2004, the Company declared dividends on its Common Stock totaling $18.4 million, which will be paid on October 29, 2004 to stockholders of record on October 12, 2004.

While the Company generally intends to hold its MBS as long-term investments, certain MBS may be sold as part of managing the Company's interest rate risk, liquidity needs and other operating objectives. As such, all of the Company's MBS are designated as available-for-sale. The timing and impact of future sales of MBS, if any, cannot be predicted with any certainty. During the first nine months of 2004, the Company sold three MBS with a carrying value of approximately $39.6 million. These sales, which occurred during the third quarter of 2004, resulted in

gains of $371,000. The Company does not intend its MBS portfolio, or any portion thereof, to be held for trading purposes.

The Company employs a diverse capital raising strategy involving the issuance of both Common Stock and Preferred Stock. During the nine months ended September 30, 2004, the Company issued: (i) approximately 8.6 million shares of Common Stock through a public offering raising net proceeds of $82.8 million; (ii) 2.0 million shares of Preferred Stock through a public offering raising net proceeds of $48.3 million; (iii) approximately 7.3 million shares of Common Stock pursuant to the DRSPP raising net proceeds of $67.2 million, of which $3.4 was receivable at September 30, 2004, and (iv) 700,900 shares of Common Stock pursuant to the CEO Program raising net proceeds of $6.4 million.

At September 30, 2004, the Company had an aggregate of $308.5 million available under its two effective shelf registration statements on Form S-3. The Company may, as market conditions permit, issue additional shares of Common Stock and/or preferred stock pursuant to these registration statements. In addition, at September 30, 2004, the Company had approximately 1.5 million shares of Common Stock available for issuance under its DRSPP shelf registration statement on Form S-3 for the purpose of issuing Common Stock for sale through the DRSPP.

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, mortgage loans 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 may enter into Caps and Swaps, which are designated as cash-flow hedges against the Company’s current and anticipated 30-day LIBOR term repurchase agreements. (See “Quantitative and Qualitative Disclosures About Market Risk.”) During the first nine months of 2004, the Company purchased Caps with a notional amount of $300.0 million at a cost of $2.4 million and entered into $180.0 million notional amount of fixed-rate pay Swaps. The Company’s Caps, which had an aggregate notional amount of $610.0 million at September 30, 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 Cap Agreements’ strike rate. At September 30, 2004, the Company’s Swaps require the Company to pay a weighted average fixed rate of 3.19% on $180.0 million from September 15, 2004 through September 14, 2006 and receive a variable rate based on 30-day LIBOR.

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 mortgage loans 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 September 30, 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 were to fail to maintain its exempt status under the Investment Company Act and become 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 and this quarterly report on Form 10-Q. 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 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 September 30, 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, as amended ("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. The Company expects that over time, its ARM-MBS will experience higher prepayment rates than would fixed-rate MBS. This is based on the assumption that homeowners with adjustable-rate and hybrid mortgages are generally self-selected borrowers and are expected to exhibit more rapid housing turnover levels or refinancing activity compared to fixed-rate mortgagees. In addition, the Company believes that prepayments on ARM-MBS accelerate significantly as the coupon reset date approaches. Over the last ten quarters ending with September 30, 2004, the CPR on Company's MBS portfolio ranged from a low of 22.9% to a high of 41.2%, with an average CPR of 32.2%.

The Company takes into account both anticipated coupon resets and expected prepayments when measuring sensitivity to changes in interest rates. In measuring its assets-to-borrowings repricing gap ("Repricing Gap"), the Company measures the difference between: (a) the weighted average months until coupon adjustment or projected prepayment on the MBS portfolio; and (b) the months remaining on its repurchase agreements applying the same projected prepayment rate and including the impact of Swaps. Assuming a 25% CPR, the weighted average term to repricing or assumed prepayment for the Company's ARM-MBS portfolio as of September 30, 2004 was 16.1 months and the weighted average term remaining on the Company's repurchase agreements, including the impact of Swaps, was 6.6 months, resulting in a Repricing Gap of 9.5 months. Assuming a 15% CPR, the weighted average term to repricing or assumed prepayment for the Company's ARM-MBS portfolio as of September 30, 2004 was 18.5 months and the weighted average term remaining on the Company's repurchase agreements, including the impact of Swaps, was 6.6 months, resulting in Repricing Gap of 11.9 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 September 30, 2004, based on contractual terms (i.e., assuming no prepayments), the Company's ARM-MBS portfolio had a weighted average term to repricing of 22.7 months and its repurchase agreements, including the impact of Swaps, had a weighted average term remaining of 6.7 months, resulting in a Repricing Gap of 16.0 months. Based on historical results, the Company believes that utilizing a 25% CPR assumption rather than a 15% CPR assumption provides a more realistic approximation of the Repricing Gap for MFA's ARM-MBS portfolio over time.

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 one-year constant maturity treasury rate ("CMT") or LIBOR, while its 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 September 30, 2004, the Company had 56.6% of its ARM-MBS portfolio with coupons based on the one-year CMT index, 41.2% with coupons based on the one-year LIBOR index, 1.7% with coupons based on the Eleventh District Cost of Funds Index (i.e., COFI) and 0.5% with coupons based on the 12-month CMT moving average.

The Company's adjustable-rate assets reset on various dates that are not matched to the reset dates on the Company's borrowings (i.e., repurchase agreements). 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, where the repricing of interest-rate sensitive assets exceeds the maturity of 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. At September 30, 2004, the Company had a negative gap, which will generally have the opposite results on the net interest margin. As discussed above, the gap analysis is prepared assuming CPRs of 25% and 15%; however, actual prepayment speeds could vary significantly from such assumptions. 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 Hedging Instruments. The following table sets forth the Company's interest rate risk using the gap methodology applying a 25% CPR at September 30, 2004.

	At September 30, 2004					
	Less than 3 Month	Three Months to One Year	One Year to Two Years	Two Years to Three Years	Beyond Three Years	Total
Interest-Earning Assets:						
Adjustable-Rate MBS	$ 887,645	$ 2,305,193	$ 1,388,394	$ 1,135,471	$ 379,928	$ 6,096,631
Fixed-Rate MBS	–	–	–	–	7,299	7,299
Cash	45,213	–	–	–	–	45,213
Total interest-earning assets	$ 932,858	$ 2,305,193	$ 1,388,394	$ 1,135,471	$ 387,227	$ 6,149,143
Interest-Bearing Liabilities:						
Repurchase agreements	$ 2,902,178	$ 1,532,751	$ 1,049,100	$ –	$ –	$ 5,484,029
Mortgage Loans	–	–	–	–	22,734	22,734
Total interest-bearing liabilities	$ 2,902,178	$ 1,532,751	$ 1,049,100	$ –	$ 22,734	$ 5,506,763
Gap before Hedging Instruments	$(1,969,320)	$ 772,442	$ 339,294	$ 1,135,471	$ 364,493	
Hedging Instruments Notional Amounts	180,000	–	–	–	–	180,000
Cumulative Difference Between Interest-Earnings Assets and Interest Bearing Liabilities after Derivatives	$(1,789,320)	$(1,016,878)	$ (677,584)	$ 457,887	$ 822,380	
Cumulative Difference as a percentage of total assets	(28.77)%	(16.35)%	(10.90)%	7.36%	13.22%	

The following table sets forth the Company’s interest rate risk using the gap methodology applying a 15% CPR at September 30, 2004:

	At September 30, 2004					
	Less than 3 Month	Three Months to One Year	One Year to Two Years	Two Years to Three Years	Beyond Three Years	Total
Interest-Earning Assets:						
Adjustable-Rate MBS	$ 722,075	$ 2,083,590	$ 1,344,520	$ 1,393,384	$ 553,062	$ 6,096,631
Fixed-Rate MBS	–	–	–	–	7,299	7,299
Cash	45,213	–	–	–	–	45,213
Total interest-earning assets	$ 767,288	$ 2,083,590	$ 1,344,520	$ 1,393,384	$ 560,361	$ 6,149,143
Interest-Bearing Liabilities:						
Repurchase agreements	$ 2,902,178	$ 1,532,751	$ 1,049,100	$ –	$ –	$ 5,484,029
Mortgage Loans	–	–	–	–	22,734	22,734
Total interest-bearing liabilities	$ 2,902,178	$ 1,532,751	$ 1,049,100	$ –	$ 22,734	$ 5,506,763
Gap before Hedging Instruments	$(2,134,890)	$ 550,839	$ 295,420	$ 1,393,384	$ 537,627	
Hedging Instruments Notional Amounts	180,000	–	–	–	–	180,000
Cumulative Difference Between Interest-Earnings Assets and Interest Bearing Liabilities after Derivatives	$(1,954,890)	$(1,404,051)	$(1,108,631)	$ 284,753	$ 822,380	
Cumulative Difference as a percentage of total assets	(31.43)%	(22.58)%	(17.83)%	4.58%	13.22%	

As part of the overall interest rate risk management strategy, the Company periodically uses Hedging Instruments to mitigate the impact of significant unplanned fluctuations in earnings and cash flows caused by interest rate volatility. The interest rate risk management strategy at times involves modifying the repricing characteristics of certain assets and liabilities utilizing derivatives. At September 30, 2004, the Company had Caps with an aggregate notional amount of $610.0 million, of which $310.0 were active, and Swaps with a notional amount of $180.0 million, all of which are active. To date, the Company has not received any payments under any of its Hedging Instruments. The notional amount of the Swap is presented in the table above, as it impacts the cost of a portion of the Company’s repurchase agreements. The notional amounts of the Company’s Caps, 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. In addition, the notional amounts of the Company’s Hedging Instruments are not reflected in the Company’s consolidated statements of financial condition. The Company’s Caps, 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 September 30, 2004, the Company had $610.0 million of notional amount of Caps, 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 September 30, 2004, the Company had cash and cash equivalents of $45.2 million and unpledged securities of $148.1 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 September 30, 2004, the gross unamortized premium for ARM-MBS for financial accounting purposes was $130.4 million (2.2% of the principal balance of MBS) while the gross unamortized premium for federal tax purposes was estimated at $127.6 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.

TABULAR PRESENTATION

The information presented in the following table projects the potential impact of sudden parallel changes in interest rates on projected net interest income and portfolio value, including the impact of Hedging Instruments, over the next twelve months based on the investments in the Company's MBS portfolio on September 30, 2004 and includes the Company's interest-rate sensitive assets and liabilities. The Company acquires interest-rate sensitive assets and funds them with interest-rate sensitive liabilities. The Company generally plans to retain such assets and the associated interest rate risk to maturity.

Change in Interest Rates	Percentage Change in Net Interest Income	Percentage Change in Portfolio Value
1.00%	(9.60%)	(1.75%)
0.50%	(1.72%)	(0.75%)
(0.50%)	1.10%	0.50%
(1.00%)	6.68%	0.75%

Certain assumptions have been made in connection with the calculation of the information set forth in the above table and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. The analysis presented utilizes assumptions and estimates based on management's judgment and experience. Furthermore, future sales, acquisitions and restructuring could materially change the Company's interest rate risk profile. It should be specifically noted that the information set forth in the above table and all related disclosure constitutes forward-looking statements within the meaning of Section 27A of the Act and Section 21E of the Securities Act.

The table quantifies the potential changes in net interest income and portfolio value should interest rates immediately change ("Shock"). The table presents the estimated impact of interest rates instantaneously rising 50 and 100 basis points, and falling 50 and 100 basis points. The cash flows associated with the portfolio of MBS for each rate Shock are calculated based on assumptions, including, but not limited to, prepayment speeds, yield on future acquisitions, slope of the yield curve, and size of the portfolio. Assumptions made on the interest rate sensitive liabilities, which are repurchase agreements, include anticipated interest rates, collateral requirements as a percent of the repurchase agreement and amount of borrowing.

The impact on portfolio value is approximated using the calculated effective duration (i.e., the price sensitivity to changes in interest rates) of 1.25% and expected convexity (i.e., approximates the change in duration relative to the change in interest rates) of (1.004%). Impact on net interest income is driven mainly by the difference between portfolio yield and cost of funding. The Company's asset/liability structure is generally such that a decrease in interest rates would be expected to result in an increase to net interest income, as the Company's repurchase agreements are generally shorter term than the Company's interest-earning assets. When interest rates are Shocked, prepayment assumptions are adjusted based on management's expectations along with the results from the prepayment model. For example, under current market conditions, a 100 basis point increase in interest rates is estimated to result in a 28.9% decrease in the CPR of the MBS portfolio. The base interest rate scenario assumes interest rates at September 30, 2004. Actual results could differ significantly from those estimated in the table.

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. 6. Exhibits

(a) Exhibits

2.1 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. Freydberg, dated March 30, 2004 (incorporated herein by reference to Exhibit 10.3 of the Form 10-Q, dated March 31, 2004, filed by the Registrant pursuant to the 1934 Act (Commission File No. 1-13991)).

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 2004 Equity Compensation Plan of the Company (incorporated herein by reference to Exhibit 10.1 of the Post-Effective Amendment No. 1 to the Registration Statement on Form S-3, dated July 21, 2004, filed by the Registrant pursuant to the 33 Act (Commission File No. 333-106606)).

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)).

10.9 Form of Incentive Stock Option Award Agreement relating to the Registrant’s 2004 Equity Compensation Plan.

10.10 Form of Non-Qualified Stock Option Award Agreement relating to the Registrant’s 2004 Equity Compensation Plan.

10.11 Form of Restricted Stock Award Agreement relating to the Registrant’s 2004 Equity Compensation Plan.

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.

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: November 1, 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)

Exhibit 10.9

MFA MORTGAGE INVESTMENTS, INC.
2004 EQUITY COMPENSATION PLAN

Form of Non-Qualified Stock Option Award Agreement

AGREEMENT by and between MFA Mortgage Investments, Inc., a Maryland corporation (the "Company"), and ________________ (the "Optionee"), dated as of the _______ day of _________, __________ (the "Effective Date").

WHEREAS, the Company maintains the 2004 Equity Compensation Plan (the "Plan") (capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed thereto by the Plan);

WHEREAS, the Optionee is a _________ of a Participating Company; and

WHEREAS, in accordance with the Plan, the Committee has determined that it is in the best interests of the Company and its stockholders to grant stock options and/or DERS to the Optionee subject to the terms and conditions set forth below.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Grant of Stock Option.

The Company hereby grants the Optionee options (the "Options") to purchase ________ shares of Common Stock, subject to the following terms and conditions and subject to the provisions of the Plan relating to Options (including Section 15 thereof). The Plan is hereby incorporated herein by reference as though set forth herein in its entirety.

The Options is not intended to be, and shall not be qualified as, an "incentive stock options" under Section 422 of the Code.

2. Option Price.

The Option Exercise Price per Share shall be $________.

3. Initial Exercisability.

Subject to paragraph 5 below, the Options, to the extent that there has been no Termination of Service and the Options have not otherwise expired or been forfeited, shall first become exercisable (unless sooner exercisable in accordance with Section 15 of the Plan) as follows:

For the Period Ending	Percent of Total Options First Exercisable

4. Exercisability Upon and After Termination of Optionee.

(a) If upon any Termination of Service for any reason other than death, Retirement or Disability, the Optionee shall have the right, subject to the provisions of the Plan, to exercise the Options at any time within three months after such Termination of Service, but only to the extent that, at the date of Termination of Service, the Optionee's right to exercise the Options had accrued pursuant to the terms of this Agreement and had not previously been exercised; provided, however, that, unless otherwise provided in this Agreement, if there occurs a Termination of Service by the Company for Cause or a Termination of Service by the Optionee (other than on account of death, Retirement or Disability), any Options not exercised in full prior to such termination shall be canceled.

(b) If the Optionee dies while an Eligible Person or within three months after any Termination of Service other than for Cause or a Termination of Service by the Optionee (other than on account of death, Retirement or Disability), and has not fully exercised the Options, then the Options may be exercised in full, subject to the provisions of the Plan, at any time within 12 months after the Optionee's death, by the Successor of the Optionee, but only to the extent that, at the date of death, the Optionee's right to exercise the Options had accrued and had not been forfeited pursuant to the terms of this Agreement and had not previously been exercised.

(c) Upon Termination of Service for reason of Disability or Retirement, the Optionee shall have the right, subject to the provisions of the Plan, to exercise the Option at any time within 24 months after such Termination of Service, but only to the extent that, at the date of Termination of Service, the Optionee's right to exercise the Options had accrued pursuant to the terms of this Agreement and had not previously been exercised.

(d) No Options which had not become exercisable at the time of cessation of employment shall ever be or become exercisable (except as may be provided in accordance with Section 15 of the Plan). No provision of this paragraph 4 is intended to or shall permit the exercise of the Options to the extent the Options was not exercisable upon cessation of employment (except as may be so provided).

5. Term.

Unless earlier expired or forfeited, the Options shall, notwithstanding any other provision of this Agreement, expire in its entirety upon the tenth anniversary of the date hereof. The Option shall also expire and be forfeited at such times and in such circumstances as otherwise provided hereunder or under the Plan.

6. Dividend Equivalent Rights.

Subject to Section 11 of the Plan, ________ DERs are granted to the Optionee, consisting of the right to receive cash per DER in an amount equal to the dividend distributions paid on a Share subject to an Option, but only to the extent that the underlying Options to which such DERs are subject are exercisable in accordance with the Plan and this Agreement, but have not yet been exercised, and have not previously expired or been forfeited. Notwithstanding the other provisions of Section 11 of the Plan, each payment under the DERs shall be made as soon as practicable (but not more than 60 days) after the time at which the corresponding dividend distribution is made to stockholders of the Company; provided, however, that, if the Committee permits the Optionee to elect to defer the Optionee's receipt of such payments, the Optionee may elect such a deferral on such terms and conditions as may be prescribed by the Committee, and using such forms as the Committee may provide, for this purpose. Notwithstanding the foregoing, if a distribution to stockholders is made and the extent to which such distribution constitutes a dividend is not known at the time, (i) the Committee may (but need not) direct that a payment be made in respect of the Optionee's DERs as the Committee deems appropriate, and (ii) as soon as practicable (but not more than 60 days) after the extent to which the distribution constitutes a dividend has been determined by the Company in its discretion (A) in the case of a prior underpayment (or if no prior payments had been made), the Company shall make any payments (without interest) as may be required to reflect such determination, and (B) in the case of a prior overpayment, the Optionee shall make any repayment (without interest) required to reflect such determination.

7. Miscellaneous.

(a) **THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF MARYLAND, WITHOUT REFERENCE TO PRINCIPLES OF CONFLICT OF LAWS.** The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(b) The Committee shall have the power to construe and interpret this Agreement, and to establish, amend and revoke rules and regulations for administration of the Plan. In this connection, the Committee may correct any defect or supply any omission, or reconcile any inconsistency in the Plan, in this Agreement, or in any related agreements, in the manner and to the extent it shall deem necessary or expedient to make the Plan fully effective. All decisions and determinations by the Committee in the exercise of this power shall be final and binding upon the Company and the Optionee. Notwithstanding the foregoing, the Committee shall not take any action or make any interpretation with respect to this Agreement or the Plan that would cause (a) the Plan or the Options to not satisfy the requirements for exemption under Rule 16b-3 under the Exchange Act or (b) any member of the Committee to be disqualified as a Non-Employee Director under such Rule.

(c) All notices hereunder shall be in writing and, if to the Company or the Committee, shall be delivered to the Board or mailed to its principal office, addressed to the attention of the Board; and if to the Optionee, shall be delivered personally or mailed to the Optionee at the address appearing in the records of the Company. Such addresses may be changed at any time by written notice to the other party given in accordance with this paragraph 7(c).

(d) The failure of the Optionee or the Company to insist upon strict compliance with any provision of this Agreement or the Plan, or to assert any right the Optionee or the Company, respectively, may have under this Agreement or the Plan, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement or the Plan.

(e) Nothing in the Plan or this Agreement shall confer on any individual any right to continue in the employ or other service of the Company or any of its Subsidiaries (if applicable) or interfere in any way with the right of the Company and its stockholders to terminate the individual's employment or other service at any time.

(f) Any and all payments hereunder to the Optionee shall be made from the general funds of the Company and no special or separate fund shall be established or other segregation of assets made to assure such payments; provided, however, that bookkeeping reserves may be established in connection with the satisfaction of payment obligations hereunder. The obligations of the Company hereunder are unsecured and constitute a mere promise by the Company to make benefit payments in the future and, to the extent that any person acquires a right to receive payments hereunder from the Company, such right shall be no greater than the right of an general unsecured creditor of the Company.

(g) This Agreement (together with the Plan) contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

IN WITNESS WHEREOF, the Company and the Optionee have executed this Agreement as of the day and year first above written.

MFA MORTGAGE INVESTMENTS, INC.

By: ____________________
Name:
Title:

____
[NAME OF OPTIONEE]

MFA MORTGAGE INVESTMENTS, INC.
2004 EQUITY COMPENSATION PLAN

Form of Incentive Stock Option Award Agreement

AGREEMENT by and between MFA Mortgage Investments, Inc., a Maryland corporation (the "Company"), and ________________ (the "Optionee"), dated as of the _______ day of _________, __________ (the "Effective Date").

WHEREAS, the Company maintains the 2004 Equity Compensation Plan (the "Plan") (capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed thereto by the Plan);

WHEREAS, the Optionee is a _________ of a Participating Company; and

WHEREAS, in accordance with the Plan, the Committee has determined that it is in the best interests of the Company and its stockholders to grant stock options and/or DERS to the Optionee subject to the terms and conditions set forth below.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Grant of Stock Option.

The Company hereby grants the Optionee an options (the "Options") to purchase ________ shares of Common Stock, subject to the following terms and conditions and subject to the provisions of the Plan relating to Options (including Section 15 thereof). The Plan is hereby incorporated herein by reference as though set forth herein in its entirety.

The Options shall be "incentive stock options" under Section 422 of the Code. If Shares acquired upon exercise of the Options are disposed of in a disqualifying disposition within the meaning of Section 422 of the Code by the Optionee prior to the expiration of either two years from the date of grant of such Options or one year from the transfer of Shares to the Optionee pursuant to the exercise of the Options, or in any other disqualifying disposition within the meaning of Section 422 of the Code, the Optionee shall notify the Company in writing as soon as practicable thereafter of the date and terms of such disposition and, if the Company thereupon has a tax-withholding obligation, shall pay to the Company an amount equal to any withholding tax the Company is required to pay as a result of the disqualifying disposition.

2. Option Price.

The Option Exercise Price per Share shall be $________.

3. Initial Exercisability.

Subject to paragraph 5 below, the Options, to the extent that there has been no Termination of Service and the Options have not otherwise expired or been forfeited, shall first become exercisable

(unless sooner exercisable in accordance with Section 15 of the Plan) as follows:

For the Period Ending	Percent of Total Options First Exercisable

4. Exercisability Upon and After Termination of Optionee.

(a) If upon any Termination of Service for any reason other than death, Retirement or Disability, the Optionee shall have the right, subject to the provisions of the Plan, to exercise the Options at any time within three months after such Termination of Service, but only to the extent that, at the date of Termination of Service, the Optionee's right to exercise the Options had accrued pursuant to the terms of this Agreement and had not previously been exercised; provided, however, that, unless otherwise provided in this Agreement, if there occurs a Termination of Service by the Company for Cause or a Termination of Service by the Optionee (other than on account of death, Retirement or Disability), any Options not exercised in full prior to such termination shall be canceled.

(b) If the Optionee dies while an Eligible Person or within three months after any Termination of Service other than for Cause or a Termination of Service by the Optionee (other than on account of death, Retirement or Disability), and has not fully exercised the Options, then the Options may be exercised in full, subject to the provisions of the Plan, at any time within 12 months after the Optionee's death, by the Successor of the Optionee, but only to the extent that, at the date of death, the Optionee's right to exercise the Option had accrued and had not been forfeited pursuant to the terms of this Agreement and had not previously been exercised.

(c) Upon Termination of Service for reason of Disability or Retirement, the Optionee shall have the right, subject to the provisions of the Plan, to exercise the Option at any time within 24 months after such Termination of Service, but only to the extent that, at the date of Termination of Service, the Optionee's right to exercise the Options had accrued pursuant to the terms of this Agreement and had not previously been exercised.

(d) No Options which had not become exercisable at the time of cessation of employment shall ever be or become exercisable (except as may be provided in accordance with Section 15 of the Plans). No provision of this paragraph 4 is intended to or shall permit the exercise of the Options to the extent the Options was not exercisable upon cessation of employment (except as may be so provided).

5. Term.

Unless earlier expired or forfeited, the Options shall, notwithstanding any other provision of this Agreement, expire in its entirety upon the tenth anniversary of the date hereof. The Option shall also expire and be forfeited at such times and in such circumstances as otherwise provided hereunder or under the Plan.

6. Dividend Equivalent Rights.

Subject to Section 11 of the Plan, ________ DERs are granted to the Optionee, consisting of the right to receive cash per DER in an amount equal to the dividend distributions paid on a Share subject to an Option, but only to the extent that the underlying Options to which such DERs are subject are exercisable in accordance with the Plan and this Agreement, but have not yet been exercised, and have not previously expired or been forfeited. Notwithstanding the other provisions of Section 11 of the Plan, each payment under the DERs shall be made as soon as practicable (but not more than 60 days) after the time at which the corresponding dividend distribution is made to stockholders of the Company; provided, however, that, if the Committee permits the Optionee to elect to defer the Optionee's receipt of such payments, the Optionee may elect such a deferral on such terms and conditions as may be prescribed by the Committee, and using such forms as the Committee may provide, for this purpose. Notwithstanding the foregoing, if a distribution to stockholders is made and the extent to which such distribution constitutes a dividend is not known at the time, (i) the Committee may (but need not) direct that a payment be made in respect of the Optionee's DERs as the Committee deems appropriate, and (ii) as soon as practicable (but not more than 60 days) after the extent to which the distribution constitutes a dividend has been determined by the Company in its discretion (A) in the case of a prior underpayment (or if no prior payments had been made), the Company shall make any payments (without interest) as may be required to reflect such determination, and (B) in the case of a prior overpayment, the Optionee shall make any repayment (without interest) required to reflect such determination.

7. Miscellaneous.

(a) **THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF MARYLAND, WITHOUT REFERENCE TO PRINCIPLES OF CONFLICT OF LAWS.** The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(b) The Committee shall have the power to construe and interpret this Agreement, and to establish, amend and revoke rules and regulations for administration of the Plan. In this connection, the Committee may correct any defect or supply any omission, or reconcile any inconsistency in the Plan, in this Agreement, or in any related agreements, in the manner and to the extent it shall deem necessary or expedient to make the Plan fully effective. All decisions and determinations by the Committee in the exercise of this power shall be final and binding upon the Company and the Optionee. Notwithstanding the foregoing, the Committee shall not take any action or make any interpretation with respect to this Agreement or the Plan that would cause (a) the Plan or the Options to not satisfy the requirements for exemption under Rule 16b-3 under the Exchange Act or (b) any member of the Committee to be disqualified as a Non-Employee Director under such Rule.

(c) All notices hereunder shall be in writing and, if to the Company or the Committee, shall be delivered to the Board or mailed to its principal office, addressed to the attention of the Board; and if to the Optionee, shall be delivered personally or mailed to the Optionee at the address appearing in the records of the Company. Such addresses may be changed at any time by written notice to the other party given in accordance with this paragraph 7(c).

(d) The failure of the Optionee or the Company to insist upon strict compliance with any provision of this Agreement or the Plan, or to assert any right the Optionee or the Company, respectively, may have under this Agreement or the Plan, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement or the Plan.

(e) Nothing in the Plan or this Agreement shall confer on any individual any right to continue in the employ or other service of the Company or any of its Subsidiaries (if applicable) or interfere in any way with the right of the Company and its stockholders to terminate the individual's employment or other service at any time.

(f) Any and all payments hereunder to the Optionee shall be made from the general funds of the Company and no special or separate fund shall be established or other segregation of assets made to assure such payments; provided, however, that bookkeeping reserves may be established in connection with the satisfaction of payment obligations hereunder. The obligations of the Company hereunder are unsecured and constitute a mere promise by the Company to make benefit payments in the future and, to the extent that any person acquires a right to receive payments hereunder from the Company, such right shall be no greater than the right of an general unsecured creditor of the Company.

(g) This Agreement (together with the Plan) contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

IN WITNESS WHEREOF, the Company and the Optionee have executed this Agreement as of the day and year first above written.

MFA MORTGAGE INVESTMENTS, INC.

By: ______________________
Name:
Title:

____
[Optionee]

Exhibit 10.11

MFA MORTGAGE INVESTMENTS, INC.
2004 EQUITY COMPENSATION PLAN

Form of Restricted Stock Award Agreement

AGREEMENT by and between MFA Mortgage Investments, Inc., a Maryland corporation (the "Company"), and ________________ (the "Grantee"), dated as of the _______ day of _________, __________ (the "Effective Date").

WHEREAS, the Company maintains the 2004 Equity Compensation Plan (the "Plan") (capitalized terms used but not otherwise defined herein shall have the respective meanings ascribed thereto by the Plan);

WHEREAS, the Grantee is _________ of a Participating Company; and

WHEREAS, in accordance with the Plan, the Committee has determined that it is in the best interests of the Company and its stockholders to grant Restricted Stock to the Grantee subject to the terms and conditions set forth below.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Grant of Restricted Stock.

The Company hereby grants the Grantee _________ Shares of Restricted Stock of the Company, subject to the following terms and conditions and subject to the provisions of the Plan. The Plan is incorporated herein by reference as though set forth herein in its entirety.

2. Restrictions and Conditions.

The Restricted Stock awarded pursuant to this Agreement and the Plan shall be subject to the following restrictions and conditions:

(i) Subject to clauses (iii) and (iv) below, the period of restriction with respect to Shares granted hereunder (the "Restriction Period") shall begin on the date hereof and lapse on the following schedule:

____

____

____

For purposes of the Plan and this Agreement, Shares with respect to which the Restriction Period has lapsed shall be vested. Notwithstanding the foregoing, the Restriction Period with respect to such Shares shall only lapse as to whole Shares. Subject to the provisions of the Plan and this Agreement, during the Restriction Period, the Grantee shall not be permitted voluntarily or involuntarily to sell, transfer, pledge, anticipate, alienate, encumber or assign Shares of Restricted Stock awarded under the Plan (or have such Shares attached or garnished).

(ii) Except as provided in the foregoing clause (i), below in this clause (ii) or in the Plan, the Grantee shall have, in respect of the Shares of Restricted Stock, all of the rights of a stockholder of the Company, including the right to vote the Shares; provided, however, that cash dividends on such Shares shall, unless otherwise provided by the Committee in this Agreement, be held by the

Company (unsegregated as a part of its general assets) until the Restriction Period lapses (and forfeited if the underlying Shares are forfeited), and paid over to the Grantee as soon as practicable after the Restriction Period lapses (if not forfeited). Certificates for Shares (not subject to restrictions) shall be delivered to the Grantee promptly after, and only after, such Shares have vested (i.e., the Restriction Period shall lapse with respect thereto) without forfeiture in respect of such Shares.

(iii) Subject to clause (iv) below, upon the Grantee's Termination of Service for Cause or by the Grantee's termination for any reason other than his or her death, Retirement or Disability, during the Restriction Period, then all Shares still subject to restriction shall thereupon, and with no further action, be forfeited by the Grantee.

(iv) In the event the Grantee's has a Termination of Service on account of death, Disability or Retirement or on account of Termination of Service by the Company for any reason other than for Cause, during the Restriction Period, then restrictions under the Plan will immediately lapse on all Restricted Stock.

3. Miscellaneous.

(a) **THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF MARYLAND, WITHOUT REFERENCE TO PRINCIPLES OF CONFLICT OF LAWS.** The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified except by a written agreement executed by the parties hereto or their respective successors and legal representatives. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(b) The Committee shall have the power to construe and interpret this Agreement, and to establish, amend and revoke rules and regulations for administration of the Plan. In this connection, the Committee may correct any defect or supply any omission, or reconcile any inconsistency in the Plan, in this Agreement, or in any related agreements, in the manner and to the extent it shall deem necessary or expedient to make the Plan fully effective. All decisions and determinations by the Committee in the exercise of this power shall be final and binding upon the Company and the Grantee. Notwithstanding the foregoing, the Committee shall not take any action or make any interpretation with respect to this Agreement or the Plan that would cause (a) the Plan to not satisfy the requirements for exemption under Rule 16b-3 under the Exchange Act or (b) any member of the Committee to be disqualified as a Non-Employee Director under such Rule.

(c) All notices hereunder shall be in writing, and if to the Company or the Committee, shall be delivered to the Board or mailed to its principal office, addressed to the attention of the Board; and if to the Grantee, shall be delivered personally or mailed to the Grantee at the address appearing in the records of the Company. Such addresses may be changed at any time by written notice to the other party given in accordance with this paragraph 3(c).

(d) The failure of the Grantee or the Company to insist upon strict compliance with any provision of this Agreement or the Plan, or to assert any right the Grantee or the Company, respectively, may have under this Agreement or the Plan, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement or the Plan.

(e) Nothing in this Agreement shall confer on any individual any right to continue in the employ or other service of the Company or any of its Subsidiaries (if applicable) or interfere in any way with the right of the Company and its stockholders to terminate the individual's employment or other service at any time.

(f) This Agreement (together with the Plan) contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

IN WITNESS WHEREOF, the Company and the Grantee have executed this Agreement as of the day and year first above written. MFA MORTGAGE INVESTMENTS, INC.

MFA MORTGAGE INVESTMENTS, INC.

By: ____________________
Name: ____________________
Title: ____________________

____
Grantee

Exhibit 31.1

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: November 1, 2004

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

Exhibit 31.2

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

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter 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: November 1, 2004

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

Exhibit 32.1

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

The undersigned, the Chief Executive Officer of MFA Mortgage Investments, Inc. (the "Company"), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 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　　Dated: November 1, 2004
Stewart Zimmerman
Title: Chief Executive Officer

Exhibit 32.2

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

The undersigned, the Chief Financial Officer of MFA Mortgage Investments, Inc. (the “Company”), hereby certifies on the date hereof, pursuant to 18 U.S.C. 1350(a), as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 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: November 1, 2004